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COMPETITIVE DYNAMICS BEHIND CORPORATE TURNAROUND – CASE IN FINNISH RETAIL TRADE

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ABSTRACT

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Most companies, if not sold, merged or otherwise ceasing to exist individually, face a decline in performance at some point of their existence. While there is no universal definition on what qualifies as performance decline, in this report it is understood as *an existence-threatening deterioration in an organisational performance induced by maladaption to changes in environment.* However, if not drawn to a bankruptcy or otherwise liquidated, there must be a performance upturn to come over the existence-threatening state. In this study, such performance turnaround means *ensuring the continuing existence of an organisation through performance improvement and sustainable competitive advantage*.

While decline-turnaround phenomenon is rather widely researched area, there is not much said on that topic from the point-of-view of competitive dynamics (i.e. how competitors interact in the marketplace via the ongoing exchange of competitive actions). This angle seems very relevant, though, as it is the external environment – namely market environment – where the customers lie, so it is how a company acts and succeeds in this competition that eventually decides between success and failure. Research problem in this study is to understand the role of competitive dynamics in corporate turnaround. Can the reasons for stopping the declining performance and returning to (more) successful track be derived from the competitive actions a company performs vis-à-vis its competitor(s)? If such observation is valid, what things in competitive behaviour vis-à-vis the competitor(s), i.e. competitive dynamics, support transition from decline to turnaround?

This paper analyses Finnish (consumer goods) retail trade from late 1970s to early 2000 as a case study to support the analysis of the research problem. While there were several competitive companies active in the industry during this period, the by far most important players were S-Group and Kesko. In addition to this case study (focusing on the competitive dynamics between S-Group and Kesko during 1980-2000), an extensive research on existing literature in the fields of decline-turnaround, competitive dynamics and firm performance was conducted, along with interviews of two former CEOs of S-Group.

In the light of this study and context of S-Group vs. Kesko, it can be argued that being (more) active and aggressive in performing competitive actions towards consistent goals enable successful turnaround, while the diversity of action types, i.e. *how the actions are performed*, is not crucial for such improved performance. These findings are rather in line with existing literature. S-Group's activeness, aggressiveness and focus especially on *Divestiture in non-core business* (i.e. retrenchment) in the 1980s seems lot like an 'academic text-book example put into real life' in terms of competitive behaviour in the stabilisation phase of a successful turnaround.

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TAMPEREEN YLIOPISTO
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Useimpien yritysten toiminta- ja suorituskyky heikkenee jossain olemassaolon vaiheessa, mikäli niitä ei ole myyty, fuusioitu tai ne eivät muuten lakkaa olemasta itsenäisenä ennen tällaista elinkaaren vaihetta. Tällaiselle yrityksen taantumiselle (eng. decline) ei ole yleispätevää määritelmää, ja tässä raportissa se ymmärretään *koko yrityksen olemassaoloa uhkaavaksi organisaation suorituskyvyn heikkenemiseksi, joka johtuu sopeutumattomuudesta ympäristön muutoksiin*. Toisaalta, sikäli kun yritys ei vajoa konkurssiin tai muuten lakkaa olemasta, on tapahduttava suorituskyvyn nousua olemassaoloa uhkaavan tilanteen kääntämiseksi. Tässä tutkimuksessa tällainen tervehtyminen (eng. turnaround) tarkoittaa *organisaation pitkän tähtäimen olemassaolon varmistamista suorituskyvyn parantamisen ja kestävän kilpailuedun avulla*.

Samalla kun taantuminen-tervehtyminen -ilmiöitä on tutkittu melko laajasti, aihetta ei ole juurikaan käsitelty kilpailudynamiikan näkökulmasta (ts. kuinka kilpailevat yritykset ovat vuorovaikutuksessa markkinoilla kilpailullisten toimenpiteiden ja niiden ’vaihtamisen’ kautta). Tämä näkökulma on kuitenkin merkityksellinen, koska asiakkaat ovat oleellinen osa tätä ulkoista markkinaympäristöä, ja siten yrityksen toiminta ja menestyminen tässä kilpailussa on lopulta ratkaiseva tekijä menestyksen ja epäonnistumisen välillä. Tutkimusongelmana on ymmärtää kilpailudynamiikan merkitys yrityksen tervehtymisessä. Voidaanko taantumisen pysäyttämisen ja tervehtymisen syyt johtaa kilpailutoimista, joita yritys suorittaa kilpailijaansa nähden?

Jos tällainen havainto on pätevä, mitkä tekijät ja piirteet kilpailudynamiikassa tukevat onnistunutta tervehtymistä taantumasta?

Tässä tutkimuksessa hyödynnetään case-aiheena ja tutkimusongelman analysoinnin tueksi Suomen vähittäiskauppan alaa 1970-luvun lopulta 2000-luvun alkuun. Alalla oli tällä periodilla useita toimijoita, mutta ylivoimaisesti keskeisimmät toimijat olivat S-Ryhmä ja Kesko. Tämän case-tutkimuksen (keskittyen S-Ryhmän ja Keskon väliseen kilpailudynamiikkaan vuosina 1980–2000) lisäksi tehtiin laaja katsaus olemassa olevaan kirjallisuuteen taantumisen, tervehtymisen, kilpailudynamiikan ja yrityksen suorituskyvyn aloilla, sekä nojauduttiin S-Ryhmän kahden entisen toimitusjohtajan haastatteluihin.

Tämän tutkimuksen ja S-Ryhmän ja Keskon välisen kilpailudynamiikan kontekstin perusteella voidaan todeta, että (kilpailijaa) aktiivisempi ja aggressiivisempi kilpailutoimien suorittaminen kohti johdonmukaisia tavoitteita mahdollistaa onnistuneen tervehtymisen, kun taas kilpailutoimien monimuotoisuus, ts. miten toimenpiteet suoritetaan, ei ole ratkaisevaa suorituskyvyn parantumiselle. Nämä havainnot ovat melko yhdenmukaisia olemassa olevan kirjallisuuden kanssa. S-Ryhmän aktiivisuus, aggressiivisuus ja keskittyminen etenkin ydinliiketoiminnan ulkopuolisten rönsyjen siivoamiseen (ts. saneeraus) 1980-luvulla muistuttaa oppikirjaesimerkkiä siitä, millaisella kilpailullisella käyttäytymisellä vakautetaan taantuvan yrityksen asema matkalla onnistuneeseen tervehtymiseen.

PREFACE

This project was not easy. It all started back in late-2007 when I got my first permanent job at Capgemini Consulting. The plan was to do my Master's Thesis during the first months of 2008 and then move to full time client work. But as life has taught me since, things do not always go as planned, especially if one does not commit to things enough. And my commitment to this Thesis was never enough. Then again, life not always going as planned, is one of the best things in it…

Now, in November 2019, I am there. This might mean even more to some other people than myself, but it means to me as well. I have got my fair share of stick along the years – deservedly so. Mom, dad, sister and brother, relatives, friends, and also my beloved wife. It has not always been easy to listen the nagging about "*why don't you just finish your Thesis*", but in the end I appreciate it. Maybe it didn't seem like having any impact, but it did.

Thanks also to people at Tampere University of Technology. Saku Mäkinen, for the spot-on and straightforward guidance, and Tomi Nokelainen, for the concrete input especially in the beginning of the project.

At Capgemini, Jyrki Veranen and Mikko Valorinta were of big help in both formulating a relevant topic to study and getting access to material and e.g. interviewees. And speaking of which, huge thank you also to Jere Lahti and Kari Neilimo for taking the time and go through with me their thinking on S-Group turnaround.

I've participated quite a few projects in my life at investment banking and consulting. But never have I had another project which would take 12 years to finish. Probably some people around me had already given up hope of this ever happening, but honestly myself, I always knew this day would come. November 2019 will always be remembered, for many reasons!

Finally, biggest thank you to Cacco, Emil and *the new one* – I love you!

"Riven johdolla me mennään kisoihin…!!!"

Antti Roiha, Helsinki 15.11.2019

CONTENTS

1. INTRODUCTION

1.1. Decline and turnaround in organisational performance

Most companies, if not within some years or possibly a decade after establishment sold, merged or otherwise ceasing to exist individually, face (a major) decline in performance at some time in their existence (Hofer 1980, p. 20). Subsequently, Hofer (ibid.) continues, the organizational response is a major effort to "turn the company around". Key questions when facing such an effort according to Hofer are: i) "are such efforts worthwhile?", ii) "can they be successful?", and, iii) "what type of turnaround strategy has the best prospects for success?".

The decline-turnaround process has been studied from various academic aspects with one of the most popular research fields (note link to Hofer's 3rd question) covering the ways managers respond to decline (see Barker & Barr 2002, p.963, for a listing of selected literature). While somewhat obviously these studies differ in their conclusions, it is also notable to mention that this might be partly explained by the fact that there is no single, bulletproof definition for a decline and / or turnaround in organizational performance. I.e. it may even be argued that trying to find universally successful turnaround strategies is a waste of time, as the decline preceding (a successful) turnaround is not only case-specific by nature and / or causes, but also in terms of severity. Someone might see a company with a merely decreasing operating profit (probably for couple of years in a row at least) as a worthwhile case for studying decline / turnaround, whereas another researcher might require various declining performance indicators (market share, sales, ROI etc.) for several years in order for that case to qualify as a declining organization. And accordingly, in some studies successful turnaround might require exceeding the performance levels prior decline, while others could argue that mere survival (instead of e.g. a bankruptcy) is enough to make a call that an organization has survived a decline.

So the first (and probably to some extent worthwhile) step is to 'define' decline and turnaround in a bit more detailed way than just as 'changes in organizational performance' (in this study analysed in chapter 2.1). As this analysis gives insight to the question of "what is decline and turnaround?", the following step of understanding the stages, transitions between stages and reasons for these transitions, i.e. the decline-turnaround process, takes us closer to getting some valuable 'lessons learned' regarding this phenomenon. This processual view is covered more in chapter 2.2. But even if taking just the ultimate stages, i.e. decline and turnaround, and by analysing the transition from former to latter and reasons for this, one is already close to the fundamental research questions within the field (e.g. Hofer's 3rd key question: "what type of turnaround strategy has the best prospects for success?"). Existing research on this specific area, i.e. successful turnaround strategies, is analysed in chapter 4, with the competitive 'layer' (the one 'enabling' firm performance) of decline-turnaround phenomenon preceding this in chapter 3.

1.1.1. Competitive position affecting the performance level

As mentioned above, decline and turnaround, even if vaguely defined, are about changes in firm performance. Ferrier et al. (1999) discuss in their study, that market share erosion and dethronement (i.e. organizational decline) can be largely explained by the characteristics of competitive actions performed by firms on the same competitive field. Ferrier et al. (ibid., p. 372) find out more precisely, that market leaders are more likely to face such decline if they are less (competitively) aggressive, carry out simpler repertoires of actions, and carry out competitive actions more slowly.

As further discussed in chapter 3, somewhat opposite views from those of Ferrier et al. (1999) have also been presented, as for example Teece (1987) comments that imitators (i.e. 'slower' in terms of carrying out a competitive action) may well generate bigger profit from a new product due to e.g. their lower development costs. As there was no universally agreed definition for decline and / or turnaround, neither is there one for a 'winning recipe of competitive dynamics'. However, what has been agreed rather unanimously is that (factors capturing) competitive dynamics within an industry are important predictors of firm performance (Jacobson, 1992, Smith et al., 1992, Young et al., 1996).

From the competitive point of view, the whole idea of organizational strategy is to *defend* and *improve* competitive position (Porter 1980), i.e. the relative competitive advantage a firm possesses vis-à-vis its competitors. Strategy materialises in competitive actions, which in turn enable competitive advantage defining competitive position.

This three-level approach is fundamental in this study: i.e. decline and turnaround 'happen' in relation to firm performance (i), for which competitive dynamics are important factors (ii). And as just described above, strategy materialises in the competitive actions performed by a company (iii), and these actions are 'an ingredient' in industry-wide competitive dynamics.

Therefore, analysing competitive dynamics 'in between' strategy and (changes in) performance seems like a valuable part in forming a comprehensive view of a specific decline-turnaround case.

1.2. Introduction to case-companies

This paper analyses Finnish (consumer goods) retail trade from late 1970s to early 2000 as a case study to support the analysis of research problem. While there were several competitive companies active in the industry during this period, the by far most important players were S-Group and Kesko.

S-Group was and is a Finnish network of companies in the retail and service trade with the core of its existence based on cooperative ownership. Throughout the history S-Group has been active in a wide variety of businesses (see more in chapter 5.1.1), and in 2013 S-Group's business portfolio consisted of grocery trade, consumer goods trade, service station stores and fuel trade, travel industry and hospitality business, automotive trade and agriculture trade. (S-Kanava 2013a)

Kesko is a listed trading sector company. It manages retail store chains and produces services for e.g. retail store chains' purchasing, logistics, network development and data management. Kesko's operations include food, home and speciality goods, building and home improvement, and car and machinery trades. (Kesko 2013)

Kesko as such means basically the centralized group under Kesko Oyj, the publicly listed entity. Therefore, Kesko in broader extent is officially K-Group, which, in addition to the Kesko Group, includes also the K-retailers, i.e. independent entrepreneurs operating the stores. However, in this study Kesko is used as a common name for all K-Group's activities in consumer goods retailing. (Kesko 2013)

1.3. Research problem and objectives

Research problem in this study is to understand the role of competitive dynamics in corporate turnaround. Can the reasons for stopping the declining performance and returning to (more) successful track be derived from the competitive actions a company performs vis-à-vis its competitor(s)? If such observation is valid, what things in competitive behaviour vis-à-vis the competitor(s), i.e. competitive dynamics, support transition from decline to turnaround?

1.4. Research methodology

Research methodologies can be broadly divided into qualitative and quantitative. Same phenomenon can be studied with different methods, basically from different 'angles'. In brief, a research methodology should be chosen based on the purpose of a research (or research problem and objectives) (Eskola & Suoranta 1998, p. 22). Qualitative research aims at describing and / or understanding a certain phenomenon or (a set of) action(s) (ibid., p. 61). The purpose of this study is to understand the role of competitive dynamics behind (in the case study part, a specific) corporate turnaround, so quite naturally mostly qualitative research methods are used. This study focuses largely on one case company, S-Group, and the decline-turnaround phenomenon faced by it, while the competitive dynamics 'layer' includes also thorough analysis of S-Group's main competitor, Kesko. As the number of 'cases' is thus small, the study fits well the requirements for qualitative research, i.e. it (qualitative research) not aiming at making statistical generalisations. While the study focuses on very limited number of cases (basically one case company with another used in 'mirroring' purposes), the analysis of the case(s) is very thorough. Basically, the 'academic criteria' of the analysis is quality instead of quantity. (ibid., p. 18)

Quantitative research involves often hypothesis. Qualitative research does not aim to 'test' and / or 'prove' the researcher's hypothesis: the researcher should have no 'anticipation' on the research problem or its results. (Eskola & Suoranta 1998, p. 19) Prior to beginning my research work I had no major presumptions on the research problem or phenomena around it, i.e. if for example how S-Group had differed from Kesko in terms of its competitive actions during the studied timeline. The goal of qualitative research is not proving existing claims / arguments, but to explore, understand and reveal certain 'facts' or phenomena (Hirsjärvi et al. 2000, p. 152).

Qualitative research is a process, where different stages of research work, data gathering, analysis, interpretation and reporting are more or less tied together (Eskola & Suoranta 1998, p. 16). This characteristic of qualitative research is present also in the research work behind this study, as certain analyses and interpretations have been made already during data gathering, and the 'results' of these have then somewhat affected the needs for further collection of background material.

In qualitative research the researcher has a lot of freedom of interpretation, which then again requires certain 'imagination' (ibid., p. 20). While solid theoretical background may increase the objectivity of a study, the researcher can never fully ignore his / her own values. Therefore, qualitative research cannot reach full objectivity – the researcher and action(s) / phenomenon under research are always tied into each other. In other words, qualitative methodology recognizes that the subjectivity of the researcher is intimately involved in scientific research. Further, the results of qualitative research are conditional, i.e. arguments are 'restricted' by certain time and place. (Hirsjärvi et al. 2000, p. 152) Thus, should this study be performed after some years, the results / conclusions might be different.

1.4.1. Choosing of the case

While the case study focuses on the competitive field within Finnish retail trade, the main company under case analysis is S-Group. Short introduction to S-Group is presented in chapter 1.2, while more detailed company presentation as well as description of the decline-turnaround experienced by the company is in chapter 5. Obviously main criteria for choosing the case company was indeed the decline and especially turnaround phase at some point of the company's somewhat recent history. For S-Group such phase materialized in 1980s and 1990s, as further described in chapter 5.3.

Another factor affecting the choice of case environment is the 'layer' of competitive dynamics. This excludes monopolistic businesses / industries, while on the other hand the number of (relevant) competitors was aimed at to be limited in order to allow in-depth analysis and benchmarking of competitive dynamics between the case company and its competitor(s). In Finnish consumer goods retailing this characteristic is well met, as S-Group and Kesko have more or less dominated the market throughout the years.

Thirdly, the industry of the case company was ideally to be rather stable and defensive, i.e. not too sensitive to economic cycles, as the more limited the impact of external decline forces (see chapter 4.1), the more emphasis can be given to internal strategies, resources and decision-making (behind competitive actions). I.e. if the decline and turnaround were mostly explainable by e.g. industry dethronement, it would not be that interesting to study differences in competitive behaviour between selected competitors. Consumer goods retailing is obviously very defensive industry, as demand for e.g. groceries is rather stable no matter what economic cycle (Airaksinen 2008).

All in all, S-Group and Kesko dominating the stable Finnish consumer goods retail trade form an interesting pair when analysing the research problem of this study. Basically, one of them losing market share has meant another gaining it. In addition, as the market has been more or less stable, the effect of external forces may be assumed to be limited. The validity of analysing this pair (and then S-Group in more detail in terms of decline-turnaround) can be illustrated by briefly thinking about somewhat contradictory case examples / industries:

- Apple Inc. – the world leading consumer electronics company: the company has during the last 20 years or so been a dominating player in e.g. laptops, portable music players, mobile phones, tablet computers and digital content delivery / online distribution. Determining the relevant competitive field / market is challenging, as Apple has constantly introduced new products to markets not necessarily even existing prior to Apple's product launches. I.e. no 'stable' competition allowing for benchmarking with limited number of fixed set of competitors. (Isaacson 2011)

- Mining industry: the mining industry is subjected to string upswings and downswings in general economy. Cyclical and commodity companies share a common feature, insofar as e.g. their value (obviously based on their performance) is often more dependent on the movement of a macro variable (the commodity price or the growth in the underlying economy) than it is on firm specific characteristics. (Damodaran 2009) Thus competitive actions and / or organization's internal factors behind decline and / or turnaround can be largely overshadowed by external factors, to which the organization cannot influence.

No matter how good or bad, the choice of the case setting is discretionary. This kind of discretionary selection applies well to qualitative research. Instead of discretionary sample selection, terms such as theoretical or purposeful selection can be used in connection to qualitative research. (Eskola & Suoranta 1998, p. 61) However, the researcher must be able to construct a strong theoretical background to his / her study, with this theoretical framework then steering the data gathering (ibid., p. 18).

1.4.2. Data gathering

Objective of qualitative research is not only to describe the gathered data, but also to create theoretically sustainable viewpoints from it (Eskola & Suoranta 1998, p. 62). Obviously, the way of collecting data will have to be chosen according to the purpose of the research. This study exploits so called triangulation, which indicates that more than one method is used in order to 'cross-check' data from multiple sources. Triangulation is said to increase the credibility and validity of qualitative research. (ibid., p. 69)

Most important material when analysing competitive dynamics behind S-Group's turnaround are (competitive) actions of S-Group and Kesko, gathered from the Annual Reports of the respective companies. These comprehensive action lists are then refined to include only such competitive actions as defined in chapter 3.2.3. However, while these lists provide the main source for analysing S-Group turnaround through externally observable competitive actions, and even more importantly, the dynamics between S-Group and Kesko, they are so called secondary sources. Primary sources in this study are the interviews of two former S-Group CEOs, with the findings from these interviews providing intelligence for understanding the thinking behind the externally observable competitive dynamics. (Hirsjärvi et al. 2000, p. 173)

The abovementioned main sources of this research are supported by e.g. company descriptions from their own web-sites, literature related to the history of Finnish consumer goods retailing, data related to the development of this market (e.g. market shares) and produced by external parties as well as industry analysis report produced by Cap Gemini Ernst & Young Finland in 2001 (in possession of the researcher). This additional material is used for preparing the researcher for the analysis and interviews as well as supporting and making corrections to e.g. answers from the interviews. I.e., the process is again iterative, with the data gathering, analysis, interpretation and reporting tied together.

An interview can be described as planned activity aiming at collecting information. Main difference to a discussion is that an interview is steered by the interviewer. (Hirsjärvi & Hurme 1991, p. 25) As a research method in qualitative research, interviewing has many strengths: it is flexible and can reach a depth of detail from an interviewee not possible through other methods. The purpose of an interview is to gain insight into the research problem from the interviewee's point-of-view, and also to understand why he or she has this point-of-view; i.e. to gain insight into the 'subjective' understanding of those around us (Seidman 1998).

As in the context of this study internal issues are separate from the externally visible actions, the researcher has to get access to the people inside the organization. And for the purpose of gaining in-depth insight from the interviewees (i.e. quality instead of quantity), I decided to interview two former CEOs of S-Group.

Table 1: Persons interviewed

Name	*CEO of S-Group (years)*	*Interview date*
Jere Lahti	1988 – 2002	28 August, 2008
Kari Neilimo	2002 – 2006	8 September, 2008

Jere Lahti's reign coincided almost completely with the turnaround phase of S-Group under analysis in this study. Thus, his views serve as an excellent insight into management decisions made leading to a successful turnaround. Kari Neilimo's period as the leader of S-Group is viewed as post-turnaround in terms of this study. However, his somewhat retrospective views can offer important 'objectivity' compared to e.g. Jere Lahti's opinions. Also, most strategic decisions made during the turnaround had still strong impact on S-Group during Kari Neilimo's leadership.

There are several types of interviews, and the selection of a type to a particular situation should be again based on the purpose of the research (e.g. King 1994, p. 16). An interview can be e.g. a structured interview, with detailed schedule and questions asked in a same specific order from all interviewees. In another end there is unstructured, conversational interview, which, according to its name, resembles more a discussion than a formal interview. (Eskola & Suoranta 1998, p. 87, King 1994, pp. 14-15) Third main type of interview, and the one applied in this study, is called semi-structured interview. Main characteristics of semi-structured interview include engaging in a formal interview with 'an interview guide' or list of themes / questions, while at the same time giving a lot of 'freedom' for the interviewees to speak openly about their thoughts around the theme. Semi-structured interviews are often used in qualitative studies, and the style is particularly useful when investigating a topic that is very personal to interviewees. (Eskola & Suoranta 1998, pp. 87-89, Hirsjärvi & Hurme 1991) In my case it was obvious, that the topic was very personal to the former S-Group CEOs, and giving them an open chance to tell their 'stories' was essential. Therefore, the choice of using semi-structured interview was rather self-evident, as at least the decline-turnaround timescale and list of competitive actions served as themes around which the interviews had to focus on.

1.4.3. Quality of the research

The use of reliability and validity are common in quantitative research. Reliability in quantitative research is defined by Joppe (2000) as the extent to which results are consistent over time and accurate representation of the total population under study. Golafshani (2003, p. 601) claims by citing various authors, that the concept of reliability can even be misleading in qualitative research, as e.g. there isn't a 'population' to be 'statistically represented' by the result of the research. On the other hand, terms such as 'dependability', 'credibility', 'trustworthiness' and 'neutrality' are used by Golafshani and other authors when trying to explain reliability in qualitative research (ibid.). To avoid this confusion of fully understanding the concept of reliability in qualitative research, Patton (2002) has concluded that reliability is a consequence of the validity in a study.

Validity of a study is related to the question if the researcher studies exactly what he or she is supposed to study. However, Golafshani (2003, p. 602) finds strong arguments also against using the term validity in qualitative research, supported by e.g. Cho & Trent (2006). Overall, methods used for evaluating the quality of a quantitative research fit poorly to qualitative research, as the latter does not require objectivity as understood in the context of former (King 1994, pp. 30-31). The most important criteria of quality in qualitative research can thus be viewed to be the researcher himself / herself, and the evaluation of quality should take into account the whole research process (Eskola & Suoranta 1998, p. 211).

I ended up using the criteria presented by Stenius et al. (2008) to evaluate the quality of this study:

1. Significance of the data set and its social or cultural place

2. Sufficiency of the data, and coverage of the analysis

3. Transparency and repeatability of the analysis.

The above criteria are well in line with the criteria presented by Mäkelä (1990) in Finnish.

Significance of the data means basically that the data are worth analysing. However, Stenius et al. (2008, p. 85) argue that it is not easy to identify criteria for the significance of data. And what comes to the significance of the data set of this study, Stenius et al. (2008, p. 85) state that when doing comparisons over time it is important to bear in mind that the social and cultural place of one and the same genre (e.g. texts produced by individuals) may vary from decade to decade. Main data for analysing the externally observable competitive dynamics behind S-Group turnaround consists of the competitive actions collected from S-Group's and Kesko's Annual Reports. And as these reports are 'regulated' by e.g. corporate governance rules and guidelines, the social and cultural state of the data should be rather constant over time.

Sufficiency of data is also debatable measure in qualitative research. Basically, data collection can be terminated when new cases no longer disclose new features. (Stenius et al. 2008, p. 85) In terms of the competitive actions performed by S-Group and Kesko, the lists collected from Annual Reports should constitute a thorough set of data, as the competitive actions are here defined as specific, detectable and externally directed competitive moves (see chapter 3.2.1). Should the company not report a specific move (of course of a certain importance, i.e. neglecting irrelevant moves), it would likely not be (externally) detectable, at least later in time if not otherwise documented. Regarding interviews, one could argue that the set of two former CEOs is not sufficient enough, but on the other hand there is no other person than Jere Lahti, who would have had such a thorough perspective and power to influence the turnaround in question. And by adding potentially more objective and retrospective view by interviewing his successor, Kari Neilimo, the data set in terms of the interviews could be argued to give sufficient enough background for understanding better the factors behind the externally detectable competitive actions. Finally, adding more case companies and / or benchmarking targets would not have been feasible in terms of the scope of this kind of study. This is supported by the coverage of the analysis criterion, related to which Stenius et al. (2008, p. 86) mention that qualitative reports are often loosely impressionistic because the excessive amount of material has made it unfeasible to analyse it carefully enough.

Transparency of an analysis means that a reader is able to follow the researcher's reasoning. Repeatability of an analysis means that the rules of classification and interpretation have been presented so clearly that another researcher applying them will reach the same conclusions. Qualitative analysis, as earlier mentioned, is more subjective and less standardized than statistical, quantitative analysis. Thus, it is vital that the reader is given as exact a picture as possible of the chain of reasoning behind reported results. (Stenius et al. 2008, p. 86) However, at the same time the results of qualitative research are conditional, i.e. arguments are 'restricted' by certain time and place (Hirsjärvi et al. 2000, p. 152). In this study both the transparency and repeatability can be argued through linking the interpretation to a solid theoretical background. On the other hand, one has to accept that the results from another researcher might vary from the results of this study – not least due to long time scale under analysis and subjective, potentially over time changing, views of the interviewees.

2. THE CONCEPT OF DECLINE AND TURNAROUND

2.1. Defining decline and turnaround

To be able to study and analyse different decline-turnaround processes and the features of this phenomenon in general, it is imperative to understand what it actually means when a company is in decline. And as decline may well result in bankruptcy or dissolution (e.g. Weitzel & Jonsson 1989), it is also evident that some sort of criteria must be fulfilled in order to make the call that a turnaround has happened instead. Different causes, content, features and process characteristics of decline and turnaround will be covered further in this report, but in order to draw the line between the decline-turnaround phenomenon and 'normal' fluctuation in company performance, specific criteria defining decline and turnaround are discussed in the following.

2.1.1. Quantitative measures for defining decline and turnaround

Performance decline can have many causes and outcomes, but it isn't straightforward either to notice decline just by e.g. observing financial figures. Hofer (1980, p. 21) mentions declining profitability as the main indicator of weakened performance, with declines in sales and market share also having some importance. However – already at that time – Hofer also claimed that more and more focus was given to return on investment (ROI) when encountering turnaround situations in order to evaluate asset utilization and performance efficiency. This trend makes sense, as it is essential to realise that declines in absolute sales, profit and/or e.g. personnel figures don't necessarily imply for decline in firm performance, as companies may downsize through asset divestments and spin-offs even if everything is going fine in these businesses. For example, Johnson (1996, p. 442) argues, that poor performance is only one of five main rationales for downscoping, others being environmental changes, firm governance, strategy in general and financial restructuring. Thus, it is evident, that relative figures should be observed when evaluating if a company is in true performance decline or not.

Also, in one of the earlier studies of decline and turnaround, Hambrick & Schecter (1983) use specific and numeric criteria when selecting businesses to their research. Consistent with the trend mentioned by Hofer (1980), they employ pre-tax ROI as the main indicator to identify appropriate turnaround cases. A business had to have an average pre-tax ROI below 10% for the first two years under study to be considered declining. Successful turnarounds were respectively defined as businesses which achieved an average pre-tax ROI above 20% for the following two years. This kind of classification doesn't go without critique, as it neglects the timing of the actual turnaround. Even if the average ROI increases from below 10% (years one and two) to above 20% (years three and four), the trend might have been growing and thus the actual turnaround happened already before this four-year period. In addition to timing critique, the approach is obviously neglecting e.g. industry specific differences in asset turnover characteristics: for example a manufacturing and / or heavy industry company with significant tangible asset base is hardly able to match the average ROI levels of asset-light businesses such as e.g. consulting business having basically only its employees as 'an asset'.

To overcome the deficiency of actual timing of decline and turnaround, Pearce & Robbins (1992, p.295) as well as Barker & Mone (1994, pp. 399-400) required more sophisticated ROI and ROS (return on sales) development from the businesses in order to consider them as decline-turnaround cases in their studies. First, a company had to have two successive years of increasing ROI and ROS followed by simultaneous declines in ROI and ROS for a minimum of two years. This definition secures that a firm must have been prospering prior to decline, which then lasts at least the mentioned two years. It was also required that the actual decline in ROI and ROS was greater than the industry average, which is to some extent addressing also the abovementioned issue regarding industry characteristics.

Subsequent to decline, a successful turnaround was realised if a company achieved at least two consecutive years of simultaneous increases in ROI and ROS again at a rate higher than the industry average. In addition, these increased ROI and ROS levels had to overtake the pre-downturn levels of corresponding figures. (Pearce & Robbins 1992, pp. 295-296)

The abovementioned classifications define explicitly if a company has suffered a dip in its performance and subsequently recovered from it. And by requiring the two-year (or longer) trend when studying decline as well as increase in profitability, the 'model' excludes brief volatilities in performance. However, there is no exact limit for the elapsed time between the downturn and recovery. To overcome this particular issue, Balgobin & Pandit (2001) added further requirements in their research of successful turnarounds. Firstly, a period of at least three years was required both in ROI decline and in the following positive trend. Secondly, and as a more concrete addition to previously mentioned classifications, Balgobin & Pandit allowed no more than two years between decline and recovery. Third addition by Balgobin & Pandit was that ROI had to be negative for at least one year in decline, and furthermore exceed the return to risk-free investment in recovery. (ibid. p. 315)

To have more ground and evidence on true financial deterioration, a 'Z score' developed by Altman (1968) has been used by e.g. Sudarsanam & Lai (2001) and Barker &

Duhaime (1997). This Z score is a multivariate formula for a measurement of the financial health and especially bankruptcy likelihood of a firm. It combines five financial ratios using a weighting system[1], and studies have shown that its accuracy is rather high (~80%). (Livingstone & Grossman 2001)

As these abovementioned studies show, there isn't one specific and 'right' way to define decline and turnaround using financial and/or performance figures. An illustrative compilation of these various definitions for selecting appropriate decline-turnaround cases is presented in Figure 1. As this study is not about selecting and analysing a wide range of decline-turnaround cases quantitatively, the example serves mainly as a reminder of the features that turnaround doesn't exist without a decline, both of these can be 'measured' through changes in company performance (e.g. ROI) and that certain timeframes should be considered when calling a certain case as a decline-turnaround.

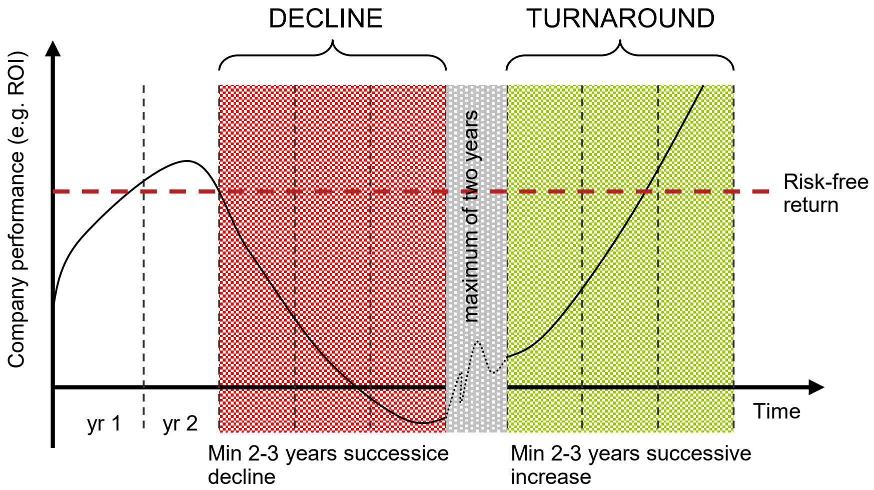

Figure 1: Indicative decline and turnaround criteria in terms of ROI development (based on Balgobin & Pandit 2001, Pearce & Robbins 1992)

2.1.2. Qualitative criteria for decline and turnaround

As there isn't a universally approved, unambiguous numeric definition for decline and turnaround, it is clear that additional descriptive features i.e. qualitative criteria are often preferred when discussing about this phenomenon. In fact, specific financial and performance figures are mainly used just for screening purposes in quantitative studies (e.g. Hambrick & Schecter 1983, Pearce & Robbins 1992, Wiseman & Bromiley 1996).

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[1] $Z = 1{,}2 \text{ x } T_1 + 1{,}4 \text{ x } T_2 + 3{,}3 \text{ x } T_3 + 0{,}6 \text{ x } T_4 + 0{,}999 \text{ x } T_5$;

Where: T_1 = Working capital / Total assets, T_2= Retained earnings / Total assets, T_3= EBIT / Total assets, T_4= Market value of equity / Book value of total liabilities, T_5= Sales / Total assets

However, neither in qualitative terms is there a hard-and-fast definition for decline and turnaround, as Slatter & Lovett (1999, p. 1) put it. They continue by stating that a turnaround situation is in hand when the "financial performance [of a company] indicates that the firm will fail in the foreseeable future unless short-term corrective action is taken" (ibid, p. 1). This, however, determines only the moment when decline has already materialised and the company is in serious trouble. It doesn't give any real insight in what the actual decline is and even more importantly, what determines if the corrective action taken in the *turnaround situation* really leads to a true turnaround and recovery.

A common way to describe decline refers to a general reduction in organisation's resource base (e.g. D'Aveni 1989, Cameron et al. 1988). According to D'Aveni (1989, p. 578), the decline happens with respect to two critical resources: financial and managerial (human resources). The indicators for reduction in financial resources are for example poor profitability, weak liquidity and low borrowing capacity (Altman 1968). This is supported by Hambrick & D'Aveni (1988), who claim that in addition to poor profitability (i.e. performance) also deficient slack (i.e. lack of surplus resources in store for 'bad times') is characterising the declining companies. Indicators of declining managerial resources include decreasing numbers of prestigious top managers who add to the human capital of a firm (D'Aveni 1989, p. 578).

Greenhalgh (1982) considers the resource base more broadly by including the reductions in e.g. workforce, assets, profits, physical capacity, and number or quality of inputs and outputs into definition of decline. This kind of thinking again somewhat disregards the possibility of downsizing and rationalizing without problems in performance. Another difficulty with this approach is that drastic and noticeable diminishes in abovementioned size dimensions often follow after a prolonged decline, when it might already be too late to initiate a successful turnaround. (Weitzel & Jonsson 1989, p. 92)

It seems plausible, that decline is strongly related to some sort of resource reduction and/or organisational downsizing. However, these reductions are more or less just consequences of decline, and thus there is a need to further define the actual occurrence of decline. Weitzel & Jonsson (1989, p. 95) bring out an interesting addition to this by reminding that decline may also occur at the same time that organisational expansion and growth is taking place. Thus, it is sensible that solely decrease in certain resources can't work as a watertight measure for decline.

A popular view is that organisational decline is synonymous to inability to adapt to (changes in) circumstances and environment (e.g. Thompson 1967, Greenhalgh 1983, Levy 1986). This failure to adapt can be caused simply by a failure to recognize the important "warning signals" (Weitzel & Jonsson 1989, p. 94). One more feature stressed by Weitzel & Jonsson (1989) as well as e.g. Pajunen (2004, p. 76) is the threat that decline sets to the long-term survival of an organisation. This is in line with the criteria presented in the previous chapter, according to which short term (less than 2-3 years) and minor negative fluctuation in firm performance shouldn't be considered as decline. Arogyaswamy et al. (1995, p. 497) stress the importance of this by saying, that threat to firm survival is actually the issue that makes a real decline conceptually distinct from firm stagnation.

Even if the long-term survival of a company should be under threat in order to consider the situation as a real decline, it is important to notice that the phenomenon under review here includes a turnaround. Thus, the ultimate negative outcomes of decline such as bankruptcy, breakdown and forced selling of the company e.g. in pieces as well as direct dissolution (Pajunen 2004, p. 77) are left for less consideration here.

Whereas decline is obviously somewhat difficult to explicitly determine, turnaround can be quite simply described as a reversed performance decline (Arogyaswamy & Yasai-Ardekani 1997, p. 3). Since decline – unless turned around – will ultimately lead to dissolution (Weitzel & Jonsson 1989), it could be argued that any existing organisation that has experienced a decline serves as an example of a turnaround. An important issue here, however, is the time scale of observation. Some declines might last for many years or even decades (depending on the actual definition used) so even if a company has experienced a decline but is still active doesn't necessarily mean that a true turnaround has materialised. Especially organisations that have wealthy and strong owners and/or financiers might perform poorly for ages and still manage to continue without any sort of dissolution. Slatter & Lovett (1999, p. 3) support this outlook when they mention that there is no absolute measure to differentiate between a mere survival and more sustainable turnaround, but that distinguishing these two from one another is essential.

As it is important to understand that decline is more than just short-term negative fluctuation in financial figures, it is as essential to pay attention to the sustainability of a possible recovery. Slatter & Lovett (1999) underline that true turnaround includes having a viable and reasonable strategy, structured organisation and control, adequate profitability and sustainable competitive advantage. With these criteria fulfilled, a company can be confident that it is unlikely to face another crisis in the foreseeable future (ibid.).

As Hambrick & Schecter (1983, p. 235) point out, systematic criteria for decline and turnaround should be articulated even though they might not fit to all situations. A lot of decline and turnaround research has been made during the last 25 years, but as the previous chapters reveal, this hope of Hambrick & Schecter is still waiting to be realised. However, the lack of precise criteria does not mean the phenomenon itself wasn't real and current at all times. To qualitatively sum up my approach, I consider decline in this report to be *an existence-threatening deterioration in an organisational performance induced by maladaption to changes in environment*. And what comes to the upturn phase, the turnaround means *ensuring the continuing existence of an organisation through performance improvement and sustainable competitive advantage*.

2.2. Decline and turnaround process as a continuum of transition zones

Research on decline and turnaround has received creditable amount of attention since 1970s, but it is evident that few of performed studies have focused on the whole combined process of decline and turnaround (Balgobin & Pandit 2001, Pajunen 2004). Existing process descriptions and stage models focus largely on either decline or turnaround, leaving combining examinations to a lesser notice. Surely, as mentioned earlier, some sort of decline is a prerequisite for the whole turnaround to even be possible, and thus the existing turnaround stage models include decline (or crisis / failure etc.) as a part of a turnaround process (Balgobin & Pandit 2001, Chowdury 2002). However, it is obvious that a decline itself is a complicated process (Weitzel & Jonsson 1989, Hambrick & D'Aveni 1988), so covering it just as a simple part of a turnaround may somewhat undermine its significance.

A compilation of existing process and stage studies is presented in the following subchapters in order to produce a picture of the 'zones' included in decline and turnaround as well as the transitions between them.

2.2.1. Decline as a downward spiral

It has already become clear, that decline in a way is the first stage of a corporate turnaround. However, determining a starting point for a decline is difficult to say the least – if not impossible. First, it is not unambiguous which reasons related to decline (e.g. management errors, poor quality, failed projects) are actually the root causes and not consequences emerging during the decline (Pajunen 2004, pp. 79-80). Secondly, as explained above, there isn't a common understanding of when a company is in real decline. Does it require three successive years of declining ROI to make a decline statement, and if so, then when has the actual decline initiated?

Weitzel & Jonsson (1989, p. 94) claim that "decline begins when an organization fails to anticipate or recognize and effectively respond to any deterioration of organizational performance that threatens long-term survival". This is in line with a sensible reasoning, that decline doesn't strike or commence at an exact measurable moment, but it rather gradually develops in time as an organisation fails to handle its deteriorating performance. Weitzel & Jonsson (1989, p. 98) also point out that weakening performance and failure to react to it can't be noticed from financial reports while in the early staged of decline. These early negative changes are rather qualitative and thus more difficult to notice (ibid.). Anticipating and/or recognizing the occurring decline is further complicated by the theory that an emerging decline is expected to divert mangers' attention away from the locus of the action, as the “noice” created by the crisis prevents managers from considering relevant information (Mellahi et al. 2002, p. 17). All in all, it can be said that decline is a result of a case-specific combination of external and internal factors that have negative effects on firm performance (e.g. Pajunen 2004, Mellahi et al. 2002, Barker & Barr 2002). However, companies face these kinds of challenges all the time in different phases of life-cycle without sinking to a true decline. Thus, it is arguable to accept the view of Weitzel & Jonsson (1989) according to which a decline process truly begins with a *blinded stage* where organisation fails to anticipate and detect the threatening pressure toward entropy (ibid. p. 97).

In the second stage of the Weitzel & Jonsson (1989) model the company and its managers have noticed the degenerating problems mainly because these are starting to show in quantitative form like decreasing sales and profitability or e.g. surplus inventories. However, as decline is yet to reach a crisis at this stage, the company does not do anything meaningful to halt the negative trend, but rather continues as if everything was going fine. Thus, this second stage of decline process is called *inaction* by Weitzel & Jonsson (1989). This stage is said to be more emphatic and last longer for larger and older organisations, which is in line with a popular view that small firms are more active and faster in initiating competitive moves than large firms (e.g. Hambrick et al. 1996). Another factor influencing the duration of this stage is the management’s conception of the root causes behind decline. If the downturn is seen to be caused by external factors, such as economic recession or raw material prices, then the company is likely to continue executing its current strategy with the focus on efficiency improvements. On the contrary, if the management ‘takes the blame’ and realises the internal factors behind decline, then they are likely to focus their efforts toward more concrete changes in strategy and operations. (Barker & Barr, 2002) One more element nurturing the inaction is the management’s habit to rely on well-rehearsed rather than less familiar responses when facing a situation of failure (Staw et al. 1981).

While it can be lethal for an organisation to stay in the *inaction* stage for too long, equally dangerous consequences might arise if the actions are taken too impulsively resulting in reckless and careless decisions. These kinds of faulty actions are characterising the third stage of decline according to Weitzel & Jonsson (1989). They continue by stating that this stage in a way may be the best time to plan and implement major reorganisation activities such as introducing new leadership, diversification through acquisitions and/or R&D, and divestiture of failing assets (ibid. p. 104, Schendel et al. 1976). These all are actions that occur constantly in turnaround literature when listing instructions for initiating successful recovery (e.g. Hambrick & Schecter 1983, Arogyaswamy et al. 1995, Bibeault 1998, Morrow et al. 2004, Gopinath 2005). Thus, it can be argued that this third stage of decline is pretty much a turning point if a company is to perform a successful turnaround. Of course this turnaround is possible all the way until dissolution (Pajunen 2004, p. 78), but the abovementioned reorganisation actions (also known as retrenchment) are such a vital part in a turnaround process (as later described), that deepening the decline with drastic *faulty actions* can lead to a point of no return en-route to a bankruptcy.

Fourth stage by Weitzel & Jonsson (1989) is simply called as *crisis*, which pretty much defines itself. At this point an organisation is suffering from e.g. lack of personnel motivation, high level of conflicts, secrecy, problems in operational models and serious management and leadership deficiencies on top of the continuing financial pressure. In this context, the crisis stage isn't a result of some acute event or incident, but rather a chronic spiral of unfavourable issues. (Ranki 2000, Cameron et al. 1987) The crisis management itself is a well-researched topic (see e.g. Pearson & Clair 1998), but it often treats crisis as an extraordinary and surprising occurrence like for example environmental shock or terrorist attack. As a part of decline process, crisis can simply be understood as a last 'layer' before sinking into dissolution. It can become suddenly after short *blinded stage* or result from long lasting performance deterioration with many *faulty actions* preceding. However, it is characterized by multiplied and complex internal problems requiring major and even revolutionary reorganisation if to be turned around. (Weitzel & Jonsson 1989, Pajunen 2004)

Weitzel & Jonsson (1989) stage model of decline finishes in *the dissolution stage*, when a company has no further possibilities to continue its turnaround efforts due to serious problems resulting in capital depletion. However, when discussing about (successful) turnaround cases, this 5th stage can't be included into process anymore.

It is obvious, that no two decline cases follow the exact same kind of process, as timing and nature of different stages can vary significantly. For example, Hambrick & D'Aveni (1988) claim that certain seeds of weakness can be seen already 10 years before eventual bankruptcy, whereas Hoffman (1989) found that average decline lasted 2.8 years (notice the problem of defining a starting point for a decline). In addition to varying timing, the stages may notably overlap and form an iterative process. Hambrick & D'Aveni (1988, pp. 13-16) mention *inaction* as a possible key stage in decline (between 3 and 6 years prior bankruptcy), but they claim that another possibility at this time of decline can as well be the exact opposite – *hyperaction* (related to *faulty actions* in Weitzel & Jonsson's model), thus combining two stages of Weitzel & Jonsson (1989) model under one with a label of *extreme strategic behaviour* (that includes both *inaction* and *hyperaction*).

No matter what kind of stages the actual decline follows, it is widely accepted that organisational failure is a protracted process where one weakness leads to another and the company falls into a spiral of decline (Hambrick & D'Aveni, 1988, p. 13). Even if it is impossible to construct a universal process model to cover all the various decline types, it is well-founded to have certain stages recognised and described. For example, by distinguishing between stages, particular problems associated with specific stages of decline can be identified in order to develop better turnaround strategies (Weitzel & Jonsson 1989, p. 107). Recognising certain contingencies like the nature of firm's decline process can heavily influence e.g. the most suitable strategies for recovery (Arogyaswamy et al. 1995). These developed process descriptions also help in understanding the concept of decline by creating a terminology of possible stages, features and dynamics of decline (Pajunen 2004).

2.2.2. A gradual transition from decline to turnaround

It is rather commonly agreed that an entity of turnaround broadly includes an initial decline (from which to recover), stabilisation phase (retrenchment) and the actual recovery. However, these stages aren't distinct periods with clear transitions from one to another, but rather they exist simultaneously with different features being emphasized in different moments (and thus providing a chance to distinguish certain vaguely separated stages from the process). All in all, it can be justified to observe the transition from decline to actual turnaround as a separate item in the process, as the overlap and interaction of different stages, features and 'forces' is at its most intense in this phase (Pajunen 2004, p. 82).

Like mentioned earlier, the decline process is likely to begin with a blinded stage as a company and its management don't notice the problems caused by changes in environment or other factors (Weitzel & Jonsson 1989). This phase is often followed by inaction, but at this stage the company has at least realised that things are going somewhat wrong. Thus, it can be argued, that the transition to turnaround initiates here, even though concrete actions and results may be far ahead. Pajunen (2004, pp. 86-87) sees this period as a line between first and second zone in his model of decline and turnaround process. Forces of decline – both initial causes and emerged side-effects – are still pushing the company down in its decline, but gradually appearing awareness of the situation as the first force of possible turnaround is initiating the upturn stage that consequently overlaps with the decline process (ibid.).

Gathered from different stage models, this gradual transition from decline to turnaround resembles e.g. *response initiation* phase in Chowdury (2002), *triggers for change* and *recovery strategy formulation* phases in Balgobin & Pandit (2001) and early part of *decline stemming* activities in Arogyaswamy et al. (1995). What has to be stressed though is that the importance of fitting certain stages of existing models to this period in decline and turnaround is insignificant. Important is to realise that the transition from decline to turnaround doesn't happen overnight, as it doesn't do between any other two stages or zones either. Once the triggers for change have been launched, the still on-going decline process gets a rivalling counterforce to compete with it. These launches may happen early in the decline process if the company is well aware of its environment, but perhaps more commonly it requires some sort of a crisis to stimulate new thought and initiatives

(Balgobin & Pandit 2001, p. 303). Naturally the earlier the company realises it is in decline and thus initiates the transition (which of course might still fail), the better the chances are that a true turnaround is eventually achieved (e.g. Weitzel & Jonsson 1989). However, even this recognition of the decline isn't necessarily a simple one time event, as Gopinath (2005, p. 23) defines the recognition to include "awareness of a crisis arising from the decline", "realisation that the crisis will not be resolved by continuing the present course of action" and "matching corrective action to the true (real) causes of the crisis".

Including recovery strategy formulation to this vague transition phase instead of the actual turnaround period might first sound incorrect, but as the third part of Gopinath's (2005) recognition definition tells, certain plans about corrective actions taking the decline contingencies into an account must be made in order to say that a company has initiated its turnaround attempt. Arogyaswamy et al. (1995) stress that certain plans and decisions about longer term recovery strategies must be made before launching any 'fire-fighting' retrenchment activities. This sounds reasonable, as too rash implementation of cutbacks and lay-offs may turn out as major a mistake and falsely directed if rigorous analysis and plan for recovery strategy have not been performed prior. In a way this implies that certain inaction can be a lot healthier than irrational hyperaction leading to faulty actions (see Weitzel & Jonsson 1989; Hambrick & D'Aveni 1988) as long as this inaction doesn't apply to analysis and planning work.

In summary it could be said, that this blurry transition phase between decline and turnaround is in a way just an amendment in the mindset of a company and its management. Concrete actions and results are still waiting to be realised as the decline forces are causing the performance to deteriorate further and further. However, at this point the company is somewhat aware of its situation, accepts that changes need to be made and is on its way in reasoning how to proceed.

2.2.3. Stabilisation and recovery as stages in turnaround

It is widely agreed in literature, that turning company around from a decline requires twofold approach – stabilisation activities to 'stop the bleeding' followed by recovery strategy implementation supporting the sustainable performance improvement. However, there isn't equal consensus about the terms used to define these two stages. Pearce & Robbins (1992, 1993, 1994) use terms *retrenchment* and *recovery* as do Barker & Mone (1994), even though these two duos disagree quite strongly on the roles of abovementioned stages. Hoffman (1989) for one sees retrenchment as improving the way company conducts business, whereas recovery focuses on shaping the type of business conducted by the company. This is nicely in line with the view of Hofer (1980), who uses terms *operative* and *strategic turnaround* as differing ways of conducting a firm upturn.

Some researchers avoid using term *retrenchment*, as it strongly refers to downsizing. Naturally declining companies have to enhance efficiency and this normally means getting rid of non-performing assets, resources and/or businesses. However, in some cases the needed retrenchment activities may be minimal and overshadowed by other forms of stabilisation such as renewing the stakeholder support and improving the internal climate and decision processes of an organisation. (Arogyaswamy et al. 1995) Probably the main contingency behind the need for retrenchment and downsizing is the level of slack at the time of turnaround attempt (ibid. p. 504). This slack (i.e. surplus recourses in store for 'bad times') can help a company to implement recovery strategies without asset reductions as there is no need for immediate cash generation. On the other hand, though, 'the safety net' provided by these surplus resources (especially financial resources) can give room for complacency and thus cause inadequate adaptive initiatives – i.e. 'success breeds failure' (Gopinath 2005, Hambrick & D'Aveni 1988).

Pearce & Robbins (1992) claim that turnaround efforts almost always entail cutback, downsizing and cost reduction and thus term *retrenchment* would be an appropriate description for this decline stemming phase. In this study, though, I use term *stabilisation* when referring to this phase, as it both includes the almost necessary asset / cost reductions and other features and actions when trying to stop the downturn. Pajunen (2004, p. 82) mentions that all these presented terms could be considered as interchangeable (he chooses the term retrenchment), and even if this is obviously quite true, I prefer word *stabilisation*, which – if not offering any other value – at least takes into account a rare but existing possibility of diversification and increasing resources already while stemming decline (Chowdury 2002, p. 254).

As mentioned above, even if there are different opinions about the importance and terminology of turnaround phases, it is quite well accepted that two somewhat distinct stages can be recognised. The second one, recovery (or return to growth), refers to events and actions that are more strategic and longer term focused than immediate decline stemming procedures (Pearce & Robbins 1992, Barker & Mone 1994, Arogyaswamy et al. 1995, Balgobin & Pandit 2001). In fact, it is quite impossible to determine when recovery phase and thus the whole turnaround ends, as companies have to continuously think their strategic decisions in order to succeed – also during the so-called good times. So basically, this recovery strategy and its implementation is nothing different from normal strategy work, except that continuing with previous model is somewhat ruled out as an option. Pearce & Robbins (2008) present a choice of three broad alternatives for post-decline strategy: rebuilding the company on its prior footprint (i.e. minor restructuring), competing with more restricted scope than before (i.e. major retrenchment and efficiency improvement) and as a third option, going through a complete strategic transformation (i.e. new businesses, diversification, acquisitions etc.).

It is clear, that dividing turnaround to just two stages doesn't represent a true process description, as in real life the turnaround attempts are much more complicated chains of events. Some efforts have been made in order to enlighten the turnaround process more specifically (e.g. Arogyaswamu et al. 1995, Balgobin & Pandit 2001, Chowdury 2002, Pajunen 2004), but it doesn't seem that any of these would have gained as widely accepted reception as for example Weitzel & Jonsson's (1989) decline process study. Probably the most important contribution of these process description attempts is that they stress the importance of understanding the iterative and inter-related nature of different events in turnaround. While there are findings like Bibeault's (1982), that a clear decision point exists between retrenchment and recovery actions, it has more commonly been pointed out that these two stages and activities within them are normally at least somewhat overlapping (e.g. Pearce & Robbins 1992, Chowdury 2002).

2.2.4. Compilation of different process and stage models

The process of decline and turnaround has been described in the previous sub-chapters on the basis of existing research and literature. There are naturally additional opinions and findings concerning this chain of events that have not been mentioned in this study. However, as the process is obviously very case sensitive and complicated, it serves here just to present the main parts that have been drawn upon in previous research. Thus, we now have a framework for the concept of decline and turnaround process with the main terminology and a descriptive flow of events discussed. What comes to the actual definition of a process, Van de Ven & Poole (1995) defined it e.g. "as a sequence of events describing how things change over time and why they change this way". The latter question – why things change – is discussed more deeply in chapter four, where the actual company actions and contingencies affecting them are presented. A compilation of previously presented process structures is represented in Figure 2, with the company performance as an indicator of transitions between different stages (see also Figure 1).

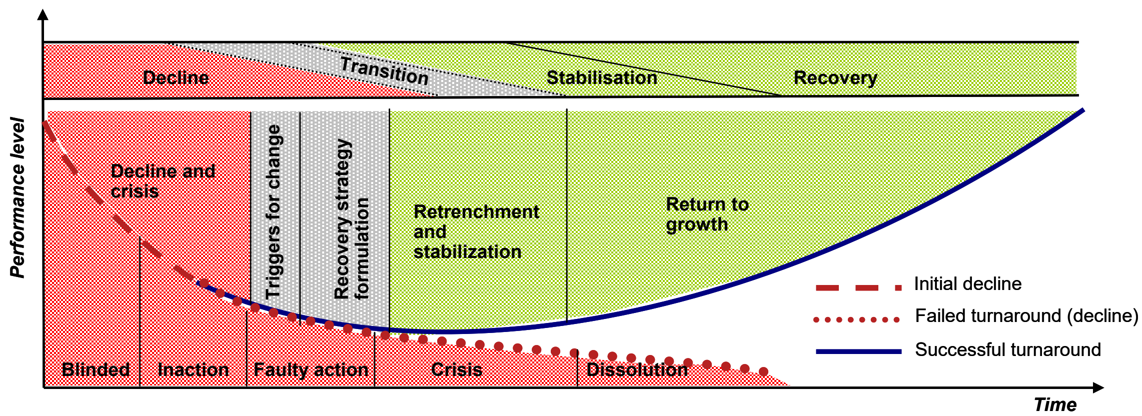

Figure 2: Main stages in decline and turnaround process (mainly based on Weitzel & Jonsson 1989, Balgobin & Pandit 2001, Pearce & Robbins 1992)

The initial decline in company performance (described with red dash line) happens when performance level starts to drop even if company doesn't realise it and this leads to inaction. As Weitzel & Jonsson's (1989) model of decline process tells, the decline is to continue if company rushes to faulty actions and further the situation develops to a crisis. The decline (if not turned around) leads to an eventual dissolution, which is the last step in this failure process (described with red dotted line).

The five-step area in the middle of Figure 2 shows a process of successful turnaround according to Balgobin & Pandit (2001). Whereas in continuing decline process the company suffers from faulty actions, in turnaround (described with blue line) the company realises that things are wrong (triggers for change) and starts to develop a recovery strategy (grey area). As Arogyaswamy et al. (1995) stress, it is important to have the long-term recovery strategies outlined before any major retrenchment and / or stabilisation actions are implemented, so that those support one another and aim to a common vision. Once the future competitive areas and main focus have been defined, it is time to stop the declining performance and stabilise the internal environment as well as relationships to other stakeholders. These actions often involve retrenchment and downsizing, but quick fix results i.e. performance improvement doesn't usually follow immediately. Thus, return to growth must be considered as long-term engagement. As Chowdyry (2002, p. 256) points out, "performance improvement should stretch over a long period of time to allow for recovery, lest firms be prematurely considered successful or unsuccessful". To sum up the difference between stages in turnaround (green area), stabilisation aims at reversing the negative consequences of decline, while recovery strategy and its implementation should address the causes of decline (e.g. Pajunen 2004, p. 83)

The topmost area of decline, transition, stabilisation and recovery represents the broad theoretical conception of decline and turnaround process as interpreted in this study. Its colour scheme shows its linkage to model presented by Balgobin & Pandit (2001). The main idea of this conception is that the stages are strongly linked to one another and thus overlap creating an inter-related nature. For example, the forces of decline continue to hinder turnaround attempt even when the stabilisation is on its way. Also, the line between stabilisation and longer-term recovery is rather vague, as e.g. similar actions may be used in both stages. The sloping lines between stages are illustrating these interconnections and overlaps, as more than one stage can be represented in certain point of performance curve.

Even with these overlaps described, it has to be mentioned that the stages and performance curve represent just an example of the whole process. For example, a successful turnaround can be initiated even as late as crisis stage of decline, moving the two turnaround areas right relative to the decline process. Also, the time variable (horizontal axis) should be considered rather unstructured, as e.g. a blinded stage may well last longer than for example stabilisation stage, even if they have certain lengths in the Figure 2.

3. COMPETITIVE DYNAMICS EXPLAINING THE SUCCESS AND FAILURE OF COMPANIES

3.1. Corporate strategy, competitive advantage and overall performance

The concept of decline and turnaround has been discussed in the earlier chapter, with criteria, terminology and process descriptions presented based on existing literature. However, the actual reasons for declining performance and company actions leading to a consequent turnaround have not been addressed yet. Various decline forces (i.e. reasons for decline) and possible stabilisation and recovery responses (i.e. turnaround methods) are discussed further in chapter four, with the focus on internal decisions and actions that can be implemented in order to succeed in turnaround. However, it is the external environment – namely market environment – where the customers lie, so it is how a company acts and succeeds in this competition that eventually decides between success and failure (Ferrier et al. 1999).

Therefore, before addressing the actual turnaround and possible retrenchment strategies derived from decline and turnaround literature, I focus on competitive dynamics as an imperative element behind firm performance. With the main theories of competitive dynamics discussed here, I can later analyse the competitive actions within Finnish consumer goods retail trade and their interconnection with the decline and turnaround of S-Group. It has to be noted though, that drawing a line between pure competitive actions and other more internal actions can be difficult, as this is not well agreed issue in existing literature. For example, Ferrier et al. (1999) consider only market-based actions as competitive ones (thus excluding e.g. R&D initiatives), whereas Chen et al. (2002), for instance, claim that any intentional action with an aim of improving competitive position should be seen as a competitive action. (See also Nokelainen 2008, pp. 59-63)

As has been previously outlined, the main broad variable in a decline and turnaround process is the performance level of a company. On the other hand, the main purpose of business activity in general is to fulfil stakeholders' goals, including performing (in financial terms) above certain desirable level (Nokelainen 2008, pp. 55-56). Again, performing well requires succeeding in the competition with other market players, as monopolistic business environments are rare in modern societies of market economy (this not being the case either in Finnish consumer goods retail trade). Outperforming competitors and thus creating superior economic value requires having competitive advantage(s), and thus seeking of these can be seen as the main object of corporate strategy. Eventually, according to this view, strategy as a concept can be addressed as a "theory how to gain competitive advantages" (Barney & Hesterly 2006, p. 5).

Even if there is some argument over the definition of a *competitive action*, it is well agreed that intentionality is a prerequisite for such an action. This leads from the views of Austrian school of economics, which is largely seen as the theoretical premise for the whole concept of competitive dynamics. (see Jacobson 1992) Thus the competitive actions can be seen as representing corporate strategy, since they aren't any coincidental events but planned and purposeful actions with objective of attaining competitive advantages and thus desirable performance level (e.g. Mintzberg 1978). Other way round, the desire for competitive advantage can be seen as the driver for competitive actions (Chen et al. 1992, p. 439). With these aspects considered, it can be argued that there is a direct link between competitive actions made by firm and its eventual performance (Hambrick et al. 1996). And as the whole decline and turnaround phenomenon is about firm performance, it is evident that competitive actions (and thus competitive dynamics) represent a relevant dimension in studying decline and turnaround cases.

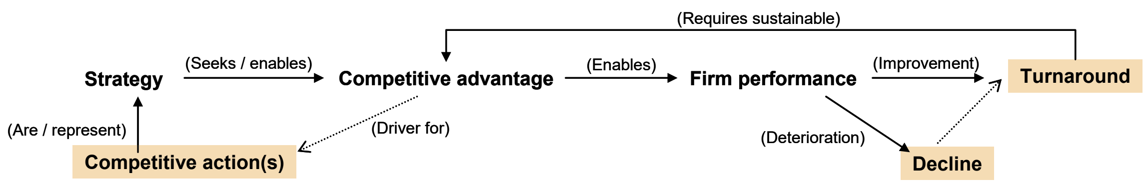

Figure 3: Linkage between competitive actions (dynamics) and decline and turnaround. (based on Nokelainen 2008, p. 57)

The concept of competitive advantage is broad, with most definitions using *value-creation, better than competitors* and *not imitated* as key features describing this ability to capture superior value to rival firms (e.g. Barney 1991, Hitt et al. 2005, Grant 2005). A famous theory related to (how to capture and maintain) competitive advantage is resource-based view (see e.g. Peteraf 1993), according to which a firm's resources represent the ability to have competitive advantage(s). So that competitive advantages can exist and be maintained (i.e. to have sustainable competitive advantage), resources must be distributed heterogeneously across firms and they must not be perfectly mobile. This means that competitors aren't necessarily sharing equal resources and that this heterogeneous state can be somewhat enduring, i.e. not all the resources can be acquired in factor markets. (Barney 1991) In this kind of environment, a company should possess resources that fit four conditions – value, rarity, difficult to imitate and non-substitutability – in order to capture and keep competitive advantage over rivalry firms (e.g. Barney 1991, Bates & Flynn 1995, Litz 1996, Bowen & Wiersema 1999).

It can be argued, that this resource-based view is somewhat conflicting with theories that emphasize external competition. For example Priem & Butler (2001, p. 23) mention that "the publication of Porter's (1980) *Competitive Strategy* shifted the emphasis toward external competitive issues and that both strategy scholars and managers often fail to recognize that resource base, rather than the particular product market combination chosen for its deployment, lies at the heart of their firm's competitive position." The meaning of this study is not to argue between these theories, but as I have just presented the link between competitive actions (dynamics) and decline and turnaround, it is reasonable to bring up the connection with the resource-based view as well.

As was mentioned earlier, decline is often associated with some sort of reduction in firm's resource base (e.g. D'Aveni 1989, Cameron et al. 1988). However, as Weitzel & Jonsson (1989) mention, noticeable decrease in strategic resources may not occur until prolonged performance downturn and thus this resource base deterioration is more or less just a consequence of a decline. Unintentional resource reductions may include e.g. weakening management as talented professionals leave a company when its internal climate starts to decay. Naturally the financial resources are also affected as performance decline erodes profitability. In addition to these reductions, a decline and turnaround process often leads to some intentional resource divestments (i.e. retrenchment) as well. Unprofitable assets may be sold and personnel layoffs carried out in order to enhance efficiency and generate cash flow. (e.g. Kose et al. 1992)

These aspects concerned, it can be argued that, in terms of resource-based view, the decline is much a downward spiral where certain resource reductions lead to further cutoffs. However, as the potential for competitive advantage should be retained and exploited in order to perform a turnaround, it is imperative that a company doesn't lose its strategic 'backbone' resources that enable core competencies and thus competitive advantage (see Prahalad & Hamel 1990). This view supports the thoughts of Arogyaswamy et al. (1995), who claim that that certain plans and decisions about longer term recovery strategies must be made before launching any 'fire-fighting' retrenchment activities. On the other way round, if asset divestitures were implemented without vision of a long-term recovery strategy, valuable resources in terms of future competitive advantage could be lost.

According to abovementioned, competitive advantage is attained through (successful) competitive actions and / or valuable resource base. And as declining firm is suffering from poor performance, it is obvious that it is lacking competitive advantage(s). Thus, a decline and turnaround case can be examined from both of these viewpoints: (i) the (dynamics in) competitive actions that it has performed, and, (ii) the dynamics in its strategic resource base. However, as these two are indeed closely interlinked (e.g. investing in a new plant can be a competitive action while being a concrete resource-based move), there is no need to draw any barriers between them. Following in this study, the competitive (more external) environment is discussed in this chapter, while (more internal) resource-based issues are touched upon in chapter four.

3.2. From competitive actions to competitive dynamics

Competitive actions are performed in order to create competitive advantage(s) in the competitive environment where a firm must succeed in order to perform according to its objectives. While the actual issue under review in this part is called competitive dynamics, i.e. "how competitors actually interact in the marketplace via the ongoing exchange of competitive moves." (Chen et al. 1992, pp. 439-440), it is first important to understand what are the actions that, when interchanged, lead to competitive dynamics.

3.2.1. Competitive action

As was mentioned earlier, there are several differing opinions about what really is a *competitive action*. As a part of his dissertation, Nokelainen (2008) presents an exhaustive collection and analysis of these numerous concept definitions, which largely agree on the intentional nature of competitive action, but are not so unanimous when it comes to the detectability or direction of these kinds of moves.

From the 14 definitions[2] for competitive action (or response) described by Nokelainen (2008, pp. 22-23), pretty much all imply that competitive actions are done for purpose – and are thus intentional. This intentionality means, in short, that there is a proper action plan, the action is performed at the intended time, the performed action follows the initial plan, there is a reasonable chance to succeed in the action, and finally, that the actor has a some control over the success of the action (Mele & Moser 1994). Basically, this condition is just ruling out 'accidental' and / or 'stroke of luck' moves from being considered as competitive actions.

While it is rather universally agreed that competitive actions are intentional occurrences, it is far more complicated to conclude if competitive actions should be delimited in terms of their 'direction' (i.e. internal / external / market oriented) and detectability (Nokelainen 2008, pp. 59-66). Some researchers (e.g. Miller & Chen 1994, Ferrier et al. 1999) count only market-based moves as competitive ones, and in a way, this makes sense as the way a firm acts and responds in a market is said to determine its ultimate organizational performance (Porter 1980). On the other corner are the scholars like Chen et al. (2002) and Barney & Hesterly (2006), who claim that the roots of competitive advantage i.e. competitive actions are any moves that can enhance firm's competitive position regardless of their direction. The 'more internal' moves could include for example investing in product development (Helfat & Raubitschek 2000) or human rela-

[2] Smith et al (1991), Smith et al. (1992), Miller & Chen (1994), Chen & Hambrick (1995), Baum & Korn (1996), Miller & Chen (1996a), (1996b), Ferrier et al. (1999), Ferrier (2001), Chen et al. (2002)

tions management (Koch & McGrath 1996), which don't probably have direct effect on competitive position of a firm, but may be sources for major advantages in long term.

Another issue under debate – detectability of a competitive action – is pretty much related to the direction matter. It is not only if a certain move is detectable or not, but rather the question is if this move is detected by company itself or some other stakeholder external to the firm (Nokelainen 2008, p. 64). Nokelainen (2008) continues by stating that as a competitive action is intentionally performed, it is obviously detectable by a company itself. Thus, it only remains to specify if an action has to be detected outside an organisation in order to make a call that this move is a competitive action. The linkage to the direction matter is here – naturally, if an action is market-based (i.e. performed on the market), it is rather detectable to almost any public entity outside an organisation. On the other hand, if the nature of an action is internal, it may even be impossible for an external observer to notice any move.

As a result of his conceptual analysis and development, Nokelainen (2008) ends up in not excluding internally directed and / or externally undetectable actions from being competitive ones. The main idea behind this reasoning is neatly based on competitive advantage – the motive behind (competitive) actions. As already has been mentioned (as a part of resource-based view), competitive advantage may result from internal issues or at least from combination of moves which include internally directed actions (e.g. strengthening intangible resources) (Hall 1993). Therefore, excluding internally directed actions would result in "prohibiting companies to use certain kinds of actions as competitive actions in their pursuit of gaining and maintaining competitive advantage" (Nokelainen 2008, p. 63). What comes to the detectability, it is well agreed (e.g. Chen et al. 1992, Chen 1996, Hopkins 2003), that a competitive advantage has more chances of being successful and sustainable if the competing responses to it are few in number and slow. Thus, the more difficult it is for competitors to detect actions leading to competitive advantage, the better are the chances that the initiator will gain superior head start. Consequently, the undetectable actions are not only competitive ones, but rather efficient ones as well (Nokelainen 2008, p. 65).

As a part of this case study, I will consider competitive action mainly according to the view of Chen & Hambrick (1995, p. 456), i.e. *as a specific and detectable competitive move initiated by a firm in order to acquire its rivals' market shares or reducing their anticipated returns, or in general to defend or improve its competitive advantage vis-à-vis its competitors (i.e. competitive position)*. And as the more internal strategies, resources and actions are covered later in this study; I add a feature of *externally directed* to my approach (according to e.g. Ferrier 2001). These kinds of actions are rather directly affecting the competitive environment and largely detectable for competitors and other external observers. According to the view of Nokelainen (2008), these actions may represent only a subset of all competitive actions, but, as acknowledged by himself, in practice it can be reasonable to focus only on certain types of actions (ibid. p. 63).

3.2.2. Actions and responses constituting the dynamics

Companies that successfully perform initiative moves (i.e. competitive actions) will consequently seize opportunities and thus generate above normal returns (Nelson & Winter 1982). However, such innovations – or entrepreneurial discoveries according to Austrian economics (e.g. Jacobson 1992) – are likely to be imitated by competitors, and as this exchange of actions cumulates, it results in a dynamic, constantly changing competitive market (ibid., Schumpeter 1934). The Austrian school stresses that accepting this disequilibrium and constant competition is focal, and therefore a company can be successful only through constant discovery and innovativeness. Thus, this Austrian view differs largely from the Industrial Organisation –based thinking, which concentrates on restricting competitive forces and creating 'monopoly power'. (Jacobson 1992)

There are some characteristics related to competitive dynamics that are useful to analyse in addition to the actual nature or meaning of specific moves. First thing is naturally the 'order of entry', i.e. which company executes the so-called initiative action. There are somewhat disagreeing views on if it is recommendable, on average, to be a pioneer or a follower, although it is obvious that no universal guideline could even exist. However, e.g. Teece (1987) comments that often imitators (i.e. followers) can generate bigger profits from a specific innovation, as for example their development costs of a new product can be drastically lower than those of the pioneer. On the other hand, Kerin et al. (1992, p. 33) mention that order of entry is causally related to market share, as, on average, the first movers have higher market shares that the followers. It has to be stressed though, that the performance indicators employed above – namely profitability and market share – don't necessarily go hand in hand, and thus both suppositions can be true at the same time.

One factor affecting the attractiveness of being either a pioneer or a follower has to do with a variable called response lag. As was mentioned earlier, a competitive advantage has more chances of being successful and sustainable if the competing responses to it are few in number and slow (e.g. Chen et al. 1992, Chen 1996, Hopkins 2003). Accordingly, the longer the response lag, the longer the initiator can enjoy of its 'monopoly status' and reap the economic benefits of its action (Chen et al. 1992, p. 442). The issue of response lag is therefore strongly related to the detectability of a competitive action – the harder it is for possible imitators to detect the move, the longer the response lag. Additionally, in case of competitive environments of more than two actors, the number and order of responses are also affecting the dynamics (Smith et al. 1991).

3.2.3. Variety of competitive actions

I have now discussed the interrelation between competitive actions, competitive advantage and firm performance. Further, the existing definitions of what is competitive action and how these actions, when 'exchanged' in market, make up competitive dynamics, are also covered. However, all this approach has been rather theoretical, and in order to build some grounds for the analysis of actual competitive actions used by the case example, it is reasonable to present here some concrete moves that constitute a 'repertoire of options' from which to choose when involved in competitive dynamics. Of course, the criteria used in deciding which moves are competitive actions – i.e. direction and detectability questions – affect the extent of this repertoire.

Many of the existing studies presenting accounts of different competitive actions are focused on U.S. domestic airline industry (e.g. Smith et al. 1991, Chen et al. 1992, Chen & Hambrick 1995). According to Hambrick et al. (1996, pp. 659-660) these studies form a kind of a program with three highly related streams: The first one focuses on pure competitive dynamics, i.e. the action / response –dyad. The second stream investigates strategic competitive behaviour at the firm level, e.g. how information processing manners of a firm influence its competitive responses (Smith et al. 1991). The third stream, respectively, aims at conceptualizing a firm's strategy as the entire repertoire of its competitive moves (e.g. Miller & Chen 1994). Most of the studies in this 'program' base their empirical data on Aviation Daily, an industry-specific publication (Nokelainen 2008, p. 71), while the foundation for categorising competitive actions, if there is one, is in most of the cases Levine (1987). And while aviation industry serves as a good environment to study competitive dynamics, it is also notable that such concentrated standpoint doesn't give the best possible view of the general repertoires of competitive actions across industries. For example "new hub creations" (Smith et al. 1991) and "route entry" (Chen & Hambrick 1995) are competitive actions that can only be implemented in this particular industry (and maybe some other logistics / transportation related fields), and thus having this 'U.S. domestic airline industry' –program as the only basis for analysing possible repertoires of competitive actions may not work that well in other environments.

To add perspective, studies from other industries are also included in analysing existing accounts concerning varieties of competitive actions. A couple studies around the millennium focused, not surprisingly, on software (Young et al. 1996, 2000) and internet related industries (Kotha et al. 2001). Further, Boyd & Bresser (2004) have studied and categorised competitive actions in American retail industry. Ferrier (e.g. 2001, Ferrier et al. 1999, 2002) has categorised competitive actions in multi-industry studies and has thus contributed to creating accounts of industry-invariant actions. Finally, Offstein & Gnyawali (2005) differ notably from other categorisations, by having as many as 69 types of action (other studies have between 2 and 21 types) based on joint research effort with practicing managers in the U.S pharmaceutical industry.

Common aspect in all these studies, even if focused on differing industries and 'streams', is that they employ some sort of categorisation of competitive actions in empirical analyses. I am not going to present or analyse further any particular accounts, but rather concentrate on building a synthesis out of them in order to have a preliminary 'menu', i.e. a repertoire of possible actions from which a company can, in theory, choose its preferred moves in each competitive situation. The benefit of having this kind of list is, in practice, the help it provides when searching and locating the competitive actions conducted by a firm during its history. Namely, this search is a lot easier when knowing what to look for.

Going through the listings of competitive actions in 18 different studies (available in Nokelainen 2008, pp. 232-240), there are 26 categories to which pretty much all the actions from different sources can be fit (see Table 2). Of course, the actual wording may vary (e.g. *product introduction* vs. *new product offerings*) between sources, but this has naturally been neglected when 'fitting' the actions into categories. Moreover, some actions have been pooled together with related actions of broader scope (e.g. *E-commerce initiative* included in *internet-based actions*) in order to make this preliminary list a bit more concise. Also, pure industry-specific actions have been excluded except for the retail industry –specific actions (Boyd & Bresser 2004), which are closely related to the case environment of this study.

Table 2: Preliminary list of (categories of) competitive actions.

1	New product	14	Product announcement
2	Mergers and acquisitions	15	Legal (governmental) actions
3	Price changes	16	Signaling actions
4	Promotional actions	17	Outsourcing
5	Joint venture (effort)	18	Organisational restructuring
6	Service actions	19	New distribution (channel)
7	Market expansion (also geographic)	20	Technology / internet-based actions
8	Investment in major resource	21	Retail outlet range / format
9	Major resource divestiture	22	Increase in production (with existing capacity)
10	Product / market exit	23	R&D
11	Product differentiation	24	Management / HR
12	Quality improvements	25	After sales / procurement initiatives
13	Manufacturing (efficiency)	26	Vertical integration

It is obvious that there are certain deficiencies in the categorisation above, as there are in the initial studies as well. Nokelainen (2008) lists some of these weaknesses in his dissertation, in which he consequently builds a typology that is supposed to overcome these deficiencies. First, the actions in different studies aren't always theoretically rigorously derived. Second, they bring forth industry-specific actions, although this issue has already been overcome in terms of this study as these kinds of actions were neglected from the initial table above (excl. retail-specific moves that were included). Third, pretty much all the initial studies (from which the preliminary list was gathered) include types of actions that aren't fully explicated in the articles (e.g. Smith et al (1991) have 16 types but 10 of them unspecified). Fourth, Nokelainen (2008, p. 82) stresses that except for Offstein & Gnyawali (2005) the number of categories (actions) is suspiciously low in all the studies.

However, it must be noticed that Nokelainen (2008) intends to, among other things, "develop a typology which addresses, theoretically, the variety (i.e. the ontology) of different competitive actions" (ibid. p. i), whereas in this study the main object of having different competitive actions listed is to know what kind of things to look for in the empirical case context. Moreover, even this is not the ultimate goal of this study, but rather it is a means to understand better the decline and turnaround process (through competitive position and dynamics). And as was explained earlier, the competitive actions that are observed in this study rely mainly on the definition of Chen & Hambrick (1995, p. 456), i.e. as specific, detectable and externally directed competitive moves initiated by a firm in order to […] defend or improve its competitive position. Therefore, the preliminary list of competitive actions presented in Table 2 can be modified, as internally directed moves such as R&D aren't considered as relevant in this context.

A modified, although still just indicative list of competitive actions to be looked for in the case context is presented in Table 3. Even if certain internal and not so detectable actions have been omitted since the preliminary list in Table 2, it has to be stressed that these moves aren't considered as irrelevant when analysing a firm performance and thus any decline and turnaround case. It is just that they aren't considered as such competitive actions that have direct effect on competition and competitive dynamics. Rather they are 'forces' that result in more detectable and externally directed actions – e.g. R&D investments (considered as competitive action by Offstein & Gnyawali 2005) can be made in order to get more innovative product launches, which in turn have an immediate effect on competitive market.

Table 3: Modified list of (categories of) competitive actions.

1	New product	10	Product / market exit
2	Mergers and acquisitions	11	Product differentations
3	Price changes	12	Quality improvement (externally detectable)
4	Promotional actions (incl. product announcement)	13	Legal actions (aimed at competition / competitor)
5	Joint venture (effort)	14	New distribution channel
6	Service-based actions	15	Technology / internet-based action (externally detectable)
7	Market expansion (also geographic)	16	Retail outlet range / format
8	Investment in major resource (externally detectable	17	Vertical integration
9	Major resource divestiture (externally detectable)		

3.3. Decline and turnaround through competitive behaviour

I have now presented the connection between competitive actions, competitive advantage and firm performance. An indicative repertoire of possible competitive actions has been delivered together with the discussion of the basic features of the dynamics created by the 'exchange of these actions'. However, it is yet to be discussed what kind of behaviour in the competitive environment and 'interface' may be incorporated with a performance decline, and if there is some insight in the existing literature about possible competitive activity that might lead to a successful turnaround.

Basically, from the competitive point of view, the whole idea of strategy is to *defend* and *improve* competitive position (Porter 1980), i.e. the relative competitive advantage a firm possesses vis-à-vis its competitors. This is in line with the earlier presented conception that strategy (which materialises in competitive actions) enables competitive advantage, which in turn, as just pointed out, defines competitive position (see Figure 3). Therefore, it seems obvious that a declining company fails to not only improve its competitive position, but even defend its existing status in the competition. Of course, it is possible that a company meets some criteria and definitions of decline (i.e. *an existence-threatening deterioration in an organisational performance induced by maladaption to changes in environment)* even if its competitive position remains stable or even improves. However, this kind of situation would mean that the whole industry and / or market was well past maturity phase and in serious trouble. So generally speaking, and especially in this study where decline is somewhat measured by decreasing market share, it is obvious that deteriorating performance means failure in defending competitive position.

From the perspective of Austrian economics, the commanding nature of competition and rivalry is the 'disequilibrium' i.e. turbulence created by the continuing exchange of competitive actions between market players (Kirtzner 1997). According to the definition of Ferrier et al. (1999), competitive action is "any newly developed market-based move that challenges the status quo of the market process", where status quo is seen as routine, ordinary, and patterned competitive behaviour (Nelson & Winter 1982, O'Driscoll & Rizzo 1985). Combining these two views leads to a conclusion that lack of competitive activity can lead to a deteriorating competitive position and thus decline. This is because inactivity means in a way accepting the status quo and not challenging it. And in situations of rivalry – i.e. non-monopoly – status quo won't exist long as the moves made by competitors lead to disequilibrium (Austrian school). Moreover, a famous Austrian economist Joseph Schumpeter (1934) implies this same by addressing that once a leading market position is won by felicitous competitive action, a leading firm inevitably finds itself imitated by competitors. Therefore, "leading firms sometimes decline when they rest on their laurels and become complacent, which renders them vulnerable to competitive challenges" (Ferrier et al. 1991, p. 374). This kind of thinking that 'success breeds failure' is common in both themes for research: decline and turnaround (e.g. Mellahi et al. 2002) as well as competitive dynamics (e.g. Miller & Chen 1994).

In addition to just aggressively performing competitive actions in order to improve competitive position as such, this activeness can be beneficial in another way as well. Young et al. (1996) argue that as a firm's cumulative competitive activity increases, the firm creates internal organizational assets in the form of action repertoires, routines, and knowledge about how to carry out action. According to this view, even unsuccessful actions are in a way beneficial as a firm learns which kinds of actions are ineffective. Moreover, the cost of taking action is lower for the firm that has a rich history of prior activity and they are also capable of undertaking more moves in a given time period. (Ferrier et al. 1999)

It sounds reasonable that a company which doesn't show any activity in competitive market (i.e. doesn't perform competitive actions) will eventually face difficulties as the environment and the 'rules of competition' change. However, explaining any decline with just inactivity in terms of performing competitive actions is definitely a false conclusion. And on the other hand, aggressive and active approach without clear strategy and reasoning behind performed actions can sure be at least equally harmful as inactivity. Therefore, it should be analysed further what kind of competitive behaviour may lead to decline and on the other hand to a sustainable high performance.

In addition to the number of performed actions, the speed of these moves is thought to influence the performance level of a firm (Ferrier et al. 1999). Proactive and agile firms use the rapid timing of new actions to outmanoeuvre competitors, and e.g. firms that introduce new products quickly are studied to experience a gain in shareholder wealth (Lee et al. 1999). On the other hand, as already discussed in this study, e.g. Teece (1987) comments that imitators may well generate bigger profit from a new product due to for example their lower development costs. Basically, however, a key principle in dynamic competition is to move quickly rather than wait for competitors to find first the new competitive moves that will slow the competitive activity of rivals (Smith et al. 1992).

Moreover, another feature of competitive behaviour said to affect performance is the diversity of performed actions. Generally speaking, firms that carry out a broad set of action types can be seen as more capable and also as less predictable (D'Aveni 1994). Accordingly, from the perspective of Austrian economics, the breadth of a firm's repertoire of competitive actions has a broad influence on performance (Ferrier et al. 1999, p. 376). Miller & Chen (1994) find that successful past can be a burden also in this context, as success may cause strategic simplicity and therefore result in organizational decline. This is because over time managers may feel comfortable in relying only on a narrow range of actions that have worked in the past. (ibid.)

Closely related to this diversity issue is the matter of strategic consistency. Certain researchers (e.g. Barnett & Hansen 1996) see consistency of performed actions (i.e. realised strategy) as a major condition for firm survival. However, this consistency should not be seen as an opposite feature for previously discussed diversity issue. Namely consistency refers to adjusting actions to changes in environment (Zajac et al. 2000) while simultaneously considering the action patterns in firm's history (i.e. ensuring continuity) (Nelson & Winter 1982). Thus, the search for diversity in competitive behaviour should not lead to gyrating but finding various and changing ways of executing continuous and consistent strategy – in other words, aiming at the same goal but with different kinds of shots.

Abovementioned characteristics of competitive behaviour are pretty much about the actions of a particular firm independently. However, the nature of behaviour *in relation* to rivals is also influencing the eventual success of performed competitive strategy. Ferrier et al. (1999) draw conclusions from previous research and argue that for an industry leader it is important to carry out actions that differ from those of the competition. This is in line with previously discussed idea, according to which it can be fatal to content oneself with the existing status quo as rivals are expected to aim aggressive attacks toward the market leader. Or as D'Aveni (1994) puts it, an industry leader must continuously seek to take new actions that are different from challengers' so as to present a moving target. All in all, the market leaders should actively attempt to disrupt the status quo themselves and not just to rely on continuing 'as before' even if everything was fine. As for the challengers, Ferrier et al. (1999) propose performing actions similar to leader's but being more aggressive in doing so. Thus, in terms of action dissimilarity, the implied 'instruction' is different for leading companies than it is for companies trying to challenge the leaders.

In a nut shell, inactivity, sluggishness, lack of diversity or consistency and failure in positioning competitive actions vis-à-vis to competitors can lead to performance deterioration. However, even if all these appear to be valid issues, it would certainly be too narrow sighted to explain any real-life performance decline and turnaround without considering case-specific and non-generalised matters. Then again, accepting the importance of the case-specific matters doesn't mean that it wouldn't be interesting to also address these abovementioned variables when comparing the competitive behaviour of the case company and its rivals.

3.4. Summary of competitive layer

I have now presented the obvious linkage between competitive behaviour of a company and its eventual performance level. Of course, it is debatable how well and directly different performance indicators are related to competitive position, but at least studying changes in market share should give some insight into the success rate of firm's competitive strategy. So, as a company seeks for competitive advantages over its rivals, it has to perform a set of competitive actions in order to defend and / or improve its position. As it has already become rather clear, it is not self-evident which moves are competitive actions and which are not, as the definition varies between different scholars. However, in this study I consider them to be specific, detectable and externally directed competitive moves initiated by a firm in order to defend or improve its competitive position.

And when these individual actions are viewed within a context, i.e. the competitive environment of rivalry, they constitute a dynamic exchange of initiating and responsive moves. Research on competitive dynamics has largely been focusing on the action-response dyad, i.e. how companies 'attack' toward each other and respectively defend themselves by launching responsive reactions (Chen & Macmillan 1992). However, competitive dynamics scholars have also turned their focus to patterns in competitive moves (Boyd & Bresser 2004, pp. 6-7), and thus studying the wider perspective of competitive behaviour is justified within the frame of competitive dynamics.

So even if the focus isn't firmly on individual actions, I have presented above some views of existing literature on the variety of competitive actions. This is done in order to facilitate the collection of competitive action catalogues of the case company and its main competitor during the research period. Accordingly, I modified my own shortlist of possible actions based on different existing studies. The purpose behind this was to exclude internal and not-so-well detectable moves from being considered as part of this competitive layer.

Strategy can be seen as a "pattern in a stream of actions" that a company performs (Mintzberg 1978). Thus, studying the actions of a specific company should give insight into the strategic decisions and plans that are made by the top management. However, Mintzberg also addresses that not all strategic intentions can be realized and that additional, previously unintended (i.e. emergent) actions may develop gradually. Therefore, the realized action patters (i.e. strategies) are different from the initially intended ones (ibid.). This alone indicates the need to understand the more internal layer of decision making (and organisation in general) in addition to the competitive market level discussed in this chapter. So, the decline and turnaround case, which can be observed from changes in firm performance (e.g. market share), is studied in a context of the competitive market; in a process of decline and turnaround, are there some deficiencies and successful patterns respectively in the competitive behaviour of a case company?

To sum up the role of 'competitive layer' in this study, I consider the externally directed and detectable actions, in a way, to be an 'interface' in which both the performance deficiencies of decline stage and the turnaround strategy of the upturn stage are materialising. Thus, even if the fundamental causes and triggers for decline and turnaround were more internal and intangible, they still reflect in the actions that are performed on market. To sum up my approach a bit further, I consider the competitive market as a playing field where it is decided if a company is performing well or not (like a football field where the goals are scored and thus winners decided). This is in line with the decision of employing (changes in) market share as the main indicator of (changing) performance. However, the real deficiencies as well as turnaround strategies often lie 'deeper' in the organisation, and this internal 'field' (the locker-room) is the one where the actual formulation of turnaround strategy and decision making take place (see Figure 4).

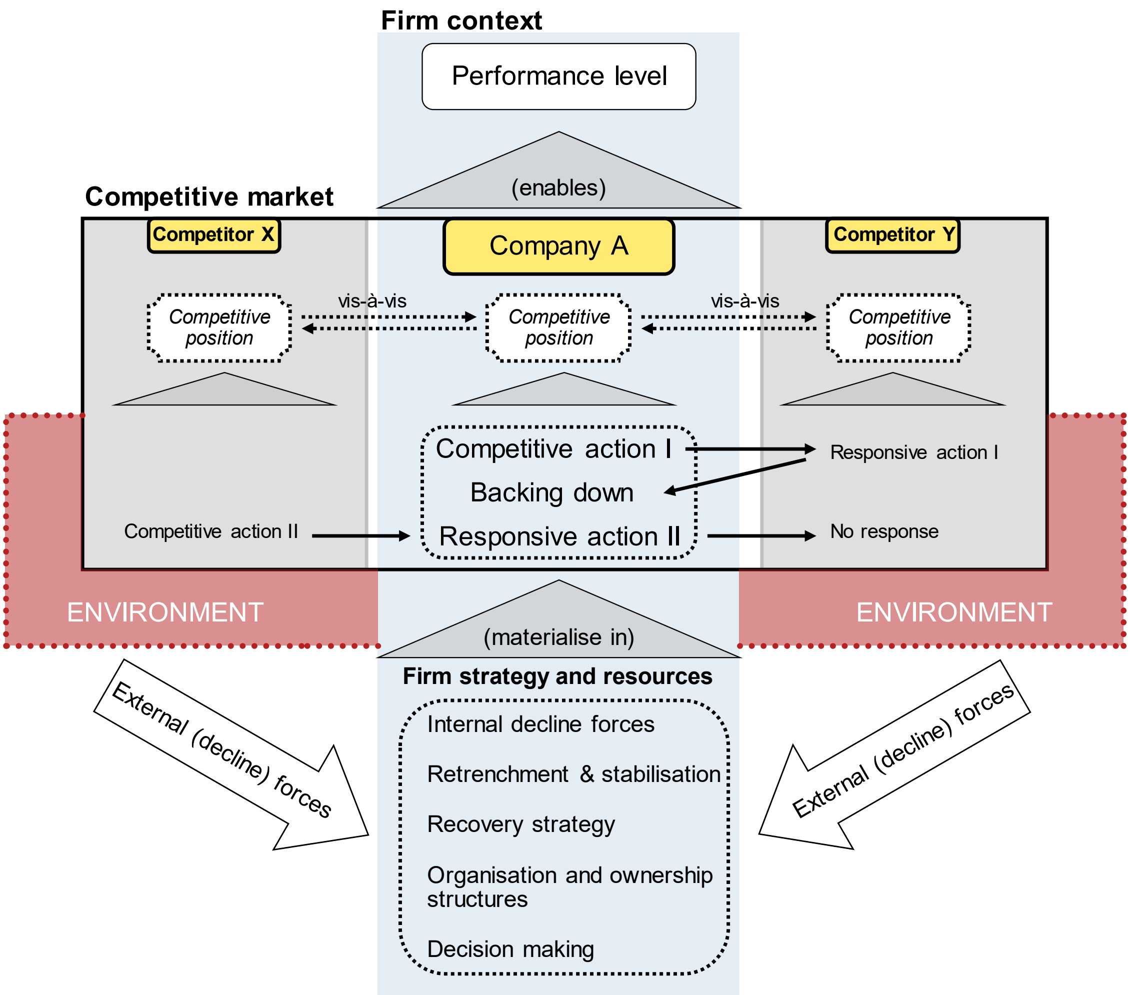

Figure 4: Framework describing the connections between performance level (decline and turnaround), competitive dynamics and internal context of an organisation.

4. TURNAROUND STRATEGIES FOR SUCCESSFUL RECOVERY

Thus far I have presented the main terminology and process view of decline and turnaround phenomenon. Following this I introduced the linkage between firm performance and competitive position, which accordingly justifies that studying competitive actions can give valuable insight in decline and turnaround cases. However, even if many studies concentrate on this interaction, i.e. competitive dynamics vs. firm performance (e.g. Ferrier et al. 1999, Young et al. 1996, Chen & Hambrick 1995, Miller & Chen 1996), it should also be interesting to widen the perspective from competitive market to more internal features of an organisation. For example, Ferrier et al. (1999, p. 385) mention that "a potentially fruitful […] research would be exploration of the contingency relationships between organizational characteristics, competitive actions and performance".

Most probably Ferrier et al. (1999) imply to exploring firm variables, such as size, age or heterogeneity of the top management team, and how these contingencies influence the competitive behaviour and thus the performance of a company. In this study I don't focus on this kind of contingency relationship, but the threefold approach (i.e. internal environment of a company, competitive environment, performance) employed is somewhat similar with the proposition of Ferrier et al. (1999).

To further sum up this threefold approach of mine (see also Figure 4), the performance level is where the decline and turnaround are shown, or on the other hand, decline and turnaround 'happen' in relation to performance. And in chapter two I have presented the criteria, main stages as well as terminology related to this process of changing performance.

On the next level ('going down'), there is the competitive market / environment. And it is how a company behaves here, i.e. the actions it produces, that decide if it will possess competitive advantage(s) or not. And further, the competitive advantage possessed vis-à-vis to competitors determines the competitive position, which can be seen as a rather abstract variable that decides how a company is performing on this competitive market level. Accordingly, in chapter three I have presented these interconnections between competitive behaviour and performance together with other main features related to competition and competitive dynamics.

In this chapter four I will focus on the third level of this threefold approach. As I am considering the competitive actions to be externally observable, market directed moves, the more internal environment and actions as well as decisions taken there aren't seen as *directly* affecting the competition. Therefore, this *internal* level is the third part in my approach. For example, like discussed in the previous chapter, performing competitive actions of too narrow range may lead to a performance decline (Ferrier et al. 1999). However, the root causes and the actual reasons for this kind of competitive behaviour lie inside the organisation. It may be for example, that the top management team is too cautious or that the resource base of a company is too simple to perform a diverse range of different actions. Or even if everything 'on the setting' was fine and there were all the capabilities to perform the right actions, it is still inside the organisation where the decisions are made. Therefore, understanding the internal features (resources, characteristics, strategy etc.) could explain even more why it is the certain competitive behaviour which is externally detectable.

So, in this chapter four, I will first focus on the decline part and how different causes of deteriorating performance affect the turnaround attempt. Then I will present the views of existing literature on the efforts made and strategies chosen by firms when stemming decline and trying to recover from it. These guidelines derived from existing research should help when analysing the turnaround of the case company and its competitive behaviour. Like has been discussed above, the strategy is in a way materialising in competitive actions, but analysing only these actions won't alone reveal the actual flow of events that has occurred inside a company. Therefore, the turnaround strategy and decision-making processes behind it include this internal aspect as well – with the external competitive environment as an interface between the internal organisation and the eventual performance.

4.1. Causes and consequences of decline as contingencies for turnaround attempt

"The causes of decline will influence which recovery strategies will be effective" (Arogyaswamy et al. 1995, p. 496) – thus it is integral to pay attention to the performance deterioration phase even if the main issue under research is turnaround. As mentioned earlier, certain kind of competitive behaviour can lead to performance decline, as e.g. too slow reacting to competitors' moves may result in decreasing sales (Ferrier et al. 1999). However, even if the decline was closely connected to performed false actions (or lack of performed actions on the other hand), there would certainly be some other forces of decline that lie 'deeper' in the organisation. Moreover, there are forces of decline which are neither reflected from the competition nor are they really about any internal deficiencies. These kind of external decline forces (but not directly related to competition) include e.g. negatively influencing political decisions and general economic depression (Pajunen 2004).

As the abovementioned external decline forces may certainly have a major role in any decline, they are somewhat discussed here, even if more focus is given to the issues that are more directly related to internal strategy and decision making of a company. In general, the external decline forces are emphasized among industrial organisation scholars claiming that choosing a right industry is even more fundamental question than actually performing and operating well in the chosen industry (e.g. Porter's five forces, Porter 1979). In the end it is obviously very case-specific how much the external decline forces can be blamed, but as I presented in chapter two, many definitions for decline refer to maladaption or inability to respond to changes in environment. Thus, it is eventually up to management if it decides to 'surrender to its fate' and blame the inhospitable industry and circumstances or take the opposite approach and fight against the external decline forces. It should also be noted already at this stage, that the case environment in this study is Finnish consumer goods retail trade, which is a defensive industry in a rather stable (e.g. political) environment, so the impact of external decline forces has not been overly dramatic throughout the years, while neither should it be fully neglected (note e.g. the economic recession in the early 1990s).

Some of the negative features in macro-environment can of course be such drastic, that not so much can be done by the firm to overcome those at least in the short term (see Table 4) (Barker & Barr 2002). This is in line with the findings of Arogyaswamy et al. (1995), who claim that in cyclical contraction driven decline the most effective recovery activities are the ones which do not attempt to transform the existing strategy fundamentally but focus on strengthening the historic position of a firm. This kind of rather incremental development / reorientation may well mean e.g. closing down the scope of operations and concentrating on the most viable customer segment(s) or geographies, without changing that much the actual business model (ibid. p. 510).

Table 4: Examples of external and internal forces of decline (Pajunen 2004, p. 80).

External forces of decline (conceptual examples:)	Internal forces of decline (conceptual examples:)
Business cycles	Managerial disagreements
Depression	Organisational disagreements
Political crises	Lack of knowledge and / or resources
Deteriorating industry	Lack of capabilities
Government's negative policy decisions	Dysfunctional organisation
	Inadequate control

Studying decline and turnaround through changes in macro environment isn't probably as interesting as focusing on internal deficiencies, as for example economic depression hits several companies and industries in similar way without leaving much notice to firm specific factors. However, one interesting issue related to external forces is that also supportive external environment can actually be a source of decline. Hambrick & D'Aveni (1988) noticed that managers of firms that are weak might end up sinking their companies into complete failure if industry indications seem extremely supportive a few years prior to bankruptcy. If these indications don't eventually come true in full power the early signs of encouragement could have either a lulling effect (resulting in lack of actions) or an emboldening effect (resulting in more action than the firm can actually manage) (ibid. p. 17). This proposition is nicely in line with the earlier presented view according to which both inactivity and gyrating aggressiveness in terms of performing competitive actions may lead to performance decline.

As has been explained above, the main interest in this 'layer' is in internal organisation and its features causing performance deterioration and consequential turnaround. Looking at the list in Table 4 together with common reasoning implies that managerial issues are certainly in focal point when considering both decline and turnaround. At least decline forces related to managerial disagreements, lack of knowledge and capabilities as well as inadequate control are all somewhat linked to problems in corporate management. The role of management in decline and turnaround is well studied area, with management heterogeneity (Hambrick et al. 1996), causal attributions of management (Barker & Barr 2002), managerial experience (Miller 1991) and management replacement (Khanna & Poulsen 1995, Bibeault 1998) as examples of the viewpoints of these studies.

However, many of the studies trying to clear up the managerial issues in decline and turnaround end up with somewhat mixed results. For example, Hambrick et al. (1996) mention that failed competitive actions do cause decline, but it is not so self-evident how management heterogeneity i.e. diverse backgrounds in top management team (e.g. in terms of educational background) reflect to these bad decisions. There is debate also on the role of top management change in turnaround situation. Many papers assume that management change is in the central role (Arogyaswamy et al. 1995, p. 496), but then again e.g. Khanna & Poulsen (1995) end up stressing that managers are largely serving as scapegoats when they are blamed for financial distress. However, these two opinions aren't necessarily in contradiction, as a breath of fresh air in top management may well result in positive change even if the previous management wasn't to blame. Respectively in some situations it may be justified and important to keep the experienced management in house and not to make changes even if the decline was caused by serious managerial mistakes. Therefore, the main point is that causes of decline must be considered as important contingencies before executing any management changes / reorganisations or other stabilisation and recovery activities (Arogyaswamy et al. 1995).

In addition to the root causes of decline, also the consequences arising from performance deterioration affect the need and means to perform stabilisation and recovery. Arogyaswamy et al. (1995, p. 504) mention severity of decline and level of organisational slack as the two most important contingencies determining which kind of decline-stemming is needed. These two go normally hand in hand, as the level of slack (i.e. surplus resources in store for 'bad times') pretty much defines how serious the situation actually is (ibid., p. 505). Naturally the more serious the decline the more drastic actions are required. For example, it the financial slack is almost fully spent (including reserve funding, see e.g. Prihti 1975), then divesting assets (i.e. asset retrenchment) can be the only way to generate necessary cash flow for covering various expenses (Pearce & Robbins 1992, p. 304).

Even if certain researchers have tried to find universally valid guidelines for recovering from performance decline, it is obvious that case-specific contingencies are in focal point when planning any recovery strategies. Should top management be changed in turnaround (e.g. Mueller & Barker 1997)? Is aggressive retrenchment an answer to decline or would it be wiser to keep as much of the resources in house as possible (e.g. Pearce & Robbins 1992 vs. Barker & Mone 1994)? How about efficiency improvement, should it be sought with existing business model or is more concrete strategy transformation a better way to recovery? These are all questions that a firm must address when planning decline-stemming and recovery strategies. At that point is imperative to analyse the causes as well as consequences of decline so that right cures are found for the performance deterioration. (Arogyaswamy et al. 1995)

Some main guidelines for preferred action under certain contingencies are presented in Figure 5 based on existing literature. They should not be considered as compelling instructions but rather demonstrative views of different alternatives in different situations.

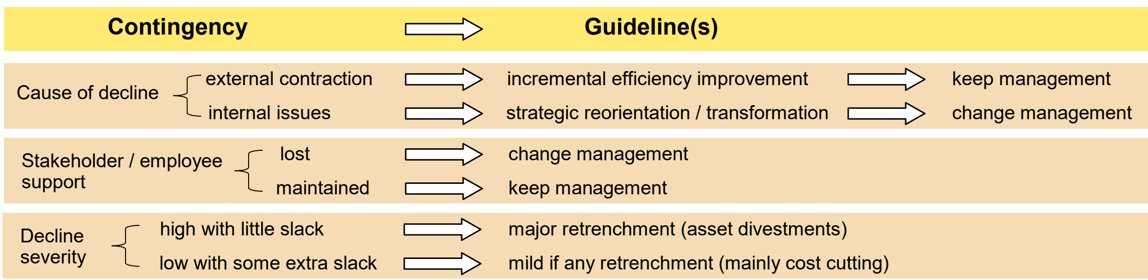

Figure 5: Broad guidelines for decline-stemming and recovery under different circum-stances (based on Arogyaswamy et al. 1995, Pearce & Robbins 1992, Barker & Barr 2002).

4.2. Stemming decline with stabilisation and retrenchment activities

Roles of decline forces, causes and consequences when facing turnaround situation were discussed in the previous sub-chapter. Some indicative guidelines for certain circumstances were also presented mainly in order to declare that causal contingencies do matter when planning recovery activities. Following sub-chapters will accordingly focus on the actual turnaround strategy and its possible 'ingredients' based on what has been discussed in existing literature. As a reminder I'd like to stress again that even if competitive actions represent strategy (i.e. strategy becomes manifest as patterns in the streams of these actions) (Boyd & Bresser 2004, p. 4), the roots for this strategy lie deeper inside the organisation structure, resources, decision making, culture etc.

As was discussed in chapter two, turnaround is rather popularly accepted to consist of two parts: stabilisation and recovery (or be it retrenchment and return to growth). The role of first phase is to 'stop the bleeding' and halt declining performance so that the existence of an organisation could be ensured until it's too late (Pajunen 2004, pp. 82-83). Arogyaswamy et al. (1995) propose that this stabilisation stage should address three critical issues in order to support the gradual recovery as comprehensively as possible: *ensuring stakeholder support*, *eliminating inefficiency* and *stabilising the firm's internal climate (and decision processes)*. These three matters will be discussed shortly in the following sub-chapters.

4.2.1. Ensuring stakeholder support

"A stakeholder in an organisation is any group or individual who can affect or is affected by the achievement of the organisation's objectives" (Freeman 1984, p. 46). It is obvious that a company has failed to achieve at least some of its objectives once in decline, so stakeholders' interest and worry is certainly high under any turnaround situation. In a severe decline the possibility of bankruptcy is always relevant and thus stakeholders are eager to defend and support their interest in a company. Financiers are naturally worried about their money, employees are scared of losing their jobs, clients and suppliers might lose an important partner and possibly advance payments and public stakeholders like governments and municipalities would also face negative consequences in a case of a bankruptcy (Cornell & Shapiro 1984).

Therefore, it is common that firm's relationships with stakeholders (especially external ones) deteriorate as a consequence of decline, as it might become impossible for the declining firm to fulfil all the agreed duties and obligations toward every stakeholder group (Sutton 1990). This relationship deterioration can be fatal for an already suffering company, as it may well lead to even increasing financing costs, tightening contract terms with partners and weakening image among stakeholders in general. As a result of more difficult stakeholder relationships and weakening negotiation power a company faces even further performance reductions, which can accordingly cause more erosion of stakeholder support (Arogyaswamy et al. 1995, pp. 499-500). This kind of spiral of cumulating negative issues is a common feature of a decline process as is declared by e.g. Hambrick & D'Aveni (1988).

Many studies have stressed the importance of stakeholder management activities in order to increase or at least maintain the vital stakeholder support during stabilisation phase. The ultimate objective of these activities is to ensure the stakeholders that with their continuing support the declining firm can overcome the difficulties and thus reestablish the relationship where both parties benefit from one another. It is obvious that bankruptcy would hardly support any of the stakeholders' favours, and thus aiming for successful turnaround should in practice get the support from various stakeholders. (Arogyaswamy et al. 1995) Of course in real life there might be hidden agendas and differing motives among stakeholder groups, as e.g. some representatives may see decline situation as a great opportunity to gain more power in organisational decision making. Therefore, it is important for the management to positively influence the perceptions of external stakeholders and to set objectives which support the interests of different groups as fairly as possible (Gopinath 1991). As an example of a concrete stakeholder management action Arogyaswamy et al. (1995, p. 502) mention Chrysler's decision to give the labour union (United Automobile Workers) a representation in the company board of directors. This helped Chrysler to implement difficult austerity measures without losing the support of employees and labour union (ibid.). This example shows that sacrifices can and often have to be done by both (or multiple) parties so that a successful turnaround can be achieved.

As mentioned earlier, the stabilisation phase is widely considered to aim at reversing the consequences of decline and therefore addressing negative financial issues is often in focal point. Ensuring the continuity of an organisation means not letting it to go bankrupt, which is eventually decided by the ability of an organisation to deal with its financial obligations toward various creditors (e.g. Prihti 1975). Naturally the ability increases the more financial slack is available once in decline, and this is largely the reason why level of slack is probably the main variable when determining the severity of decline (see sub-chapter 4.1). Due to its central stage in decline phenomenon, the financial matter has been studied exhaustively in relation to performance deterioration. Most of these studies have concentrated on predicting corporate failure (decline) based on financial ratios (e.g. Altman 1968, Prihti 1975, Taffler 1983, Smith & Graves 2005).

However, in this study the role of financing issues is largely related to the means and obligations that a company has when attempting turnaround. And this is where this financing matter comes close to stakeholder relationships. As a result of decline a firm often faces liquidity crisis i.e. it doesn't have financial resources to cope with various financial engagements. These obligations consist of e.g. interest payments and debt amortisation (lenders), raw material and service fees (suppliers), salaries (employees) and dividends (shareholders). Some of the obligations (at least dividends) can be omitted temporarily in order to survive from a cash crisis, but other engagements might be such tight that without co-operation with the specific creditor a liquidation (or bankruptcy) can happen really fast. (Prihti 1975) And what makes the spiral of decline even more challenging is that if a firm is able to gain stakeholder support, it is bound to come with an increased price. As the risk for bankruptcy increases the creditors require higher premium form their support; higher interest rates for loans, higher advance payments for suppliers and less flexibility for other obligations in general (Arogyaswamy et al. 1995, p. 499).

The decisive role of financing and liquidity means that a declining firm must establish viable relationship and interaction with its creditor stakeholders. No matter how good the initial recovery strategy plans are, a company simply goes bankrupt if it can't handle its financial obligations (or agree about payment schedules). And as there are often numerous creditors for whom the company owns money, it is not necessarily easy to find a solution that satisfies everyone. Therefore, having an open relationship with stakeholders and credible management with credible plans (Smith & Graves 2005, p. 306) is imperative in order to make through the stabilisation phase – this especially if a company doesn't possess reasonable financial slack. (Arogyaswamy et al. 1995)

4.2.2. Eliminating inefficiency

Inefficiency is often seen as a major cause behind firm decline (Bibeault 1998, Slatter & Lovett 1999) and this is certainly true in some occasions. However, Arogyaswamy et al. (1995, p. 500) propose that inefficiency may well be a consequence of performance deterioration more often than a root-cause of it. This is a relevant view in relation to competitive advantage, as loss of customers to competitors (i.e. decreasing competitive position) leads to deteriorating demand. As a result of decreasing sales, the existing cost and asset base become under-utilized which naturally causes the observed inefficiency (ibid.). Persistent inefficiency leads to drastic financial problems, as a firm can't take part in price competition and might even find itself generating negative cash flow (Slatter & Lovett 1999). Therefore, addressing inefficiency – be it a cause or a consequence of decline – is a necessary step on a way to possible recovery.

It has been mentioned in several occasions already that retrenchment is often a major part of decline stemming process. Retrenchment refers to restructuring, downsizing and downscoping, i.e. activities concentrating on cost and asset reductions as means to mitigate the causes and / or consequences of firm decline (Pearce & Robbins 1992). The main object is obviously getting rid of assets and costs that are under-utilized, but Arogyaswamy et al. (1995, p. 502) remind also about the importance of improving cash flow as a result of retrenchment. These extra proceeds may serve as a vital benefit when trying to avoid the risk of insolvency.

Whether or not retrenchment is a necessity for succeeding in turnaround is not well agreed. For example, Hambrick & Schecter (1983), Pearce & Robbins (1992, 1994) and Chowdhury & Lang (1996) all imply that rather drastic efficiency-oriented moves are essential for almost any turnaround initiative. Then again e.g. Barker & Mone (1994) and Arogyaswamy & Yasai-Ardekani (1997) are sharing an opposite view. The former claim that "reducing assets or costs in an absolute sense does not always mean that efficiencies are gained or that a stabilised core of operations is achieved" (Barker & Mone 1994. p. 397). They continue by criticising the overemphasis of retrenchment also by mentioning that declining firms are often forced to sell their best assets while retrenching, as there is hardly a viable market for underperforming units or assets.

While the inevitability of retrenchment remains debated, it is again certain that different contingencies have to be taken into account when planning possible restructuring activities. It has been mentioned that stabilisation is mainly about addressing the consequences of decline. Some specific decline contingencies and their influence in stabilisation and recovery activities were discussed in chapter 4.1. So, it is clear, that decline (i.e. historical events) affects turnaround. However, the actions performed in decline-stemming phase should also be streamlined with the wider context of long-term recovery strategy. According to Arogyaswamy et al. (1995, p. 495), "the competitive strategies chosen by firm's top management (i.e. recovery strategies) […] will likely impact the tactics used to increase efficiency" (i.e. retrenchment). This means that feedback loops between stages (decline, stabilisation, recovery) have to be considered when planning turnaround activities and strategies (ibid.). So, in a nut shell, possible efficiency improvement through retrenchment must not work against long term recovery, but rather support it by aiming at a common vision.

Competitive environment is naturally affecting how different activities work while eliminating inefficiency. Morrow et al. (2004) studied how retrenchment (asset vs. cost) worked in growth, maturity and decline phase of industry. According to their study (pp. 202-203), both ways of retrenchment should be exploited in mature industries, while any kind of retrenchment is hardly effective in declining industries. Furthermore, asset retrenchment was seen as a viable effort in growth industry, whereas extensive cost-cutting doesn't work that well in these circumstances. These findings are mainly based on the feature that the divested assets are valued higher in growth and mature industries than in declining ones. Therefore, the retrenching firm gets more cash flow as a result of its asset divestitures. The problem here is that the wider context of recovery is somewhat neglected – "while selling off assets, even at a premium price, may generate cash in the short run, such actions could stifle the firm's ability to position itself for successfully competing in the long run" (ibid. p. 204).

Core reason for inefficiency may well lie in declining demand for company's products, as was mentioned above. Thus, improving efficiency is also possible by improving sales and not just by cutting costs (or assets). So, all in all, as mentioned by Hofer (1980), increased efficiency coincides often with both retrenchment and increased sales. Seeking efficiency improvement through increasing sales is somewhat supported by the findings of Arogyaswamy & Yasai-Ardekani (1997), according to which most successful turnarounds seem to have experienced both increased efficiency and investment in technology without necessarily retrenching. This may well mean increasing the volume of operations rather than executing cutbacks and asset divestitures.

4.2.3. Improving internal climate and decision processes

Decreasing morale of employees, loss of leader credibility, resistance to change, politicking and high level of conflict are all features of a declining organisation. Again, it is debatable if these are mainly causes or consequences of deteriorating performance, but in order to stabilise the operations, performance and working environment it is certain that the problems in internal climate have to be fixed. (Arogyaswamy et al. 1995, p. 501) In a way this rather abstract and tacit concept of *internal climate* acts behind all the other levels, as it is almost impossible to gain stakeholder support or improve efficiency if there are drastic problems in organisational ambiance and decision making. And even if these stabilisation objectives were met, succeeding in more radical transformation while under heavy resistance for change would certainly turn out to be extremely hard.

Probably the trickiest feature related to employee morale and decline is that efficiency improvement often requires retrenchment, which often means downsizing. Thus, an action that is meant to support a turnaround turns out to be a serious mistake, as dismissals and layoffs can easily lead to even further reduced morale and commitment as well as increased alienation and turnover of the important employees (Greenhalgh 1983). Guidelines for successful downsizing have been presented in several studies (e.g. Tomasko 1992, Cameron 1994, Ranki 2000), and aspects like employee involvement, teamwork, communication and information sharing, rewarding, appraising and training are all viewed to be important when extending retrenchment to human resources.

Closely related to deteriorating internal climate is the matter of problematic decision-making culture, which implies malfunctioning relationships and processes at the higher levels of hierarchy. Decline has earlier been defined as maladaption to external changes, and malfunctioning decision making surely restricts top management's ability to enact adaptive organisational changes (Staw et al. 1981). Reason behind problematic decision making may lie in e.g. organisational confusion, unclear structures or lack of defined accountabilities and responsibilities (Slatter & Lovett 1999, p. 41). Therefore, the hierarchical scope in this issue should be extended from management to board of directors and other groups using decision making power (e.g. administrative board).

Improving decision processes entails naturally considering the position of top management and especially CEO. This question was already discussed in chapter 4.1. from the view point of decline contingencies. However, as a concrete stabilisation action the change of top management offers certain potential that might be difficult to attain any other way. Declining management may lose credibility with external stakeholders and become stigmatised (Sutton 1990), and in this kind of situation the management change can enhance both stakeholder relationships and decision making. Replacing CEO may also serve as an efficient way of improving internal climate and clearing up structures of authority. Arogyaswamy et al. (1995, p. 506) propose that outsider leaders, perceived as unconnected to previous problems may earn greater ability to stabilise the firm's internal climate. Slatter & Lovett (1999, p. 80) support this view by stating that hiring a good 'company doctor' with previous turnaround experience rather that specific industry knowledge is beneficial in most cases. For this kind of 'turnaround guru' it is essential to take action quickly and achieve some earl wins, but by succeeding in this the new CEO may well turn out to be the single most important asset in turnaround (ibid.).

4.3. Recovery and return to growth

Stabilisation phase and different activities performed during it are often somewhat forced actions as a struggling company tries to survive from day-to-day obligations and 'stop the bleeding' in declining organisation. However, if succeeding in decline-stemming, gradually a firm begins to look beyond just today and tomorrow, and realises that it can and will survive through implementing the necessary changes in fundamental issues that caused decline. (Bibeault 1998, pp. 99-102) What has to be remembered again though is that even the most acute stabilisation (and retrenchment) actions launched under high pressure shouldn't work against the long-term recovery, i.e. plans for recovery strategy have to be considered already while fighting for survival within day-to-day obligations (Arogyaswamy et al. 1995).

So, once some kind of stability has been established in terms of the three aspects (stakeholders, efficiency, internal climate and decision making), it is time to start implementing those wider-ranging recovery efforts. Some decline-specific contingencies affecting recovery were presented in chapter 4.1, but all in all this second part of turnaround is commonly agreed to focus on addressing the basic causes behind existence-threatening performance deterioration (e.g. Arogyaswamy et al. 1995, Pajunen 2004, Pearce & Robbins 1992, 2008).

4.3.1. Different recovery strategies (in different environments)

Hofer (1980, p. 20) makes a distinction between operative and strategic turnarounds, claiming that "operative responses seldom cure strategic problems". This is again in line with the view, that turnaround measures should take into account the nature of problems behind declining performance (see e.g. chapter 4.1.). Hofer (1980, p. 30) continues by concluding that management seldom adopt strategic turnaround strategies at all, as these normally take "longer to pay off", and even more importantly, as strategic turnarounds are possible only at certain time periods. By this Hofer means that effective strategic moves can be made only if for example "a competitor slips". And as Hofer (ibid., p. 28) mentions that most strategic turnarounds are preceded by decline in market share (and / or sales), it can be concluded that according to his view competitive dynamics (i.e. "a competitor slipping while making strategic moves") play a major role in market share turnaround. Although Hofer (ibid., p. 29) claims also that not enough attention is given to strategic turnarounds that involve segmentation and niche hunting instead of increases in market share.

Niche strategies are also promoted by Arogyaswamy et al. (1995, p. 510), when they write that “the most effective recovery strategy for firms with weak positions in declining industries will entail selectively shrinking firm operations to target one or several favourable customer segments”. This kind of niche hunting may well be optimal strategy if the industry is indeed declining, but without such an external decline force the opposite strategy regarding market share development should also be considered. In this kind of environment Arogyaswamy et al. (1995) continue largely agreeing with Hofer’s (1980) view, as they note that ‘strategic reorientation’ (comparable to Hofer’s ‘strategic turnaround’) is required in more firm-based decline instead of ‘incremental strategic changes’ (comparable to Hofer’s ‘operative turnaround’). And by ‘strategic reorientation’, Arogyaswamy et al. (1995, p. 509) mean “creating new resources and capabilities”, instead of just trying to develop the way of doing business with existing ones.

Barker & Duhaime (1997) and later Barker & Barr (2001) find strong support to the conclusion that when considering decline to be more driven by internal sources as opposed to external sources, managers are likely to successfully engage in more drastic strategic reorientation. However, Barker & Barr (2001) also point out, somewhat surprisingly, that the extent of strategic reorientation enacted during a turnaround attempt is positively associated e.g. with firm size, as the managers of large organizations may tend to focus more internally when performance problems arise, rather than fixating on an external crisis (ibid., p. 977).

A natural conceptual continuum to the abovementioned strategic reorientation, aiming at tackling the causes of decline, is the view discussed by Pearce & Robbins (2008), who claim that the last step of turnaround should also aim at reducing the chances of recurrence of such performance deterioration. There are no new dramatic findings in Pearce & Robbins’ (2008) study compared to earlier literature, but they do add some value by compiling existing research findings and ending up in a three-fold ‘toolbox’ for alternatives after initial retrenchment (i.e. stabilisation).

The first one, and most dangerous according to Pearce & Robbins (2008, p. 123), is to *rebuild the company on its prior strategic footprint*. This scenario would of course require as a pre-requisite that no major strategic moves were made in stabilisation phase. The company may change its top-management, improve stakeholder relationships and internal climate or even add some financial headroom (e.g. through raising capital), but e.g. no major asset divestments are possible should the longer-term plan be continuing with the same strategic footprint. This kind of “retrenchment may be the turnaround strategy” (ibid.) has certain similarities with Hofer’s (1980) operative turnaround concept.

The obvious drawback of this alternative is that most likely the competitive landscape has changed making the 'old' strategy not suitable (as it led to a decline), and even if stabilisation phase results in performance turn, the company is still exposed to similar assaults in the future (ibid.). Again, "operative responses seldom cure strategic problems".

The second broad alternative by Pearce & Robbins (2008, p. 123) is for the company to *accept its new reduced form*. This is again in line with the 'niche hunting' strategy mentioned by e.g. Hofer (1980) and Arogyaswamy et al. (1995). The means to achieve this kind of status are not that different from potential operative turnaround responses in alternative one, but e.g. more drastic asset / cost retrenchment is possible (or even required) should the longer-term strategy be becoming more focused, 'leaner and meaner', player in selected segments (ibid.).

The third alternative proposed by Pearce & Robbins (2008, p. 124) is "dramatically different" from first two alternatives, called *strategic transformation*. This means taking into account "the environmental forces and competitive dynamics as much as [company's] own resources and capabilities" and to determine "creative ways to attract new assets to the company, and reconfigure them in ways that present major new challenges to their competition". Basically, this is fully in line with Arogyaswamy et al.'s (1995, p. 509) definition of 'strategic reorientation', i.e. "creating new resources and capabilities", instead of just trying to develop the way of doing business with existing ones.

Pearce & Robbins (2008) focus further on this *strategic transformation* alternative by analyzing ways of 'achieving' the desired new strategic state. They propose that broadly the ways include acquisitive and collaborative growth. In order to include organic growth / diversification to this toolbox, one could somewhat disregard the words "acquisitive" and "collaborative", and instead just analyze the target areas of growth / diversification. By doing this, the work done by Pearce & Robbins (2008) results in a following list of 'means' for *strategic transformation* (listed in the order of "magnitude of strategic change" (ibid., p. 125)):

- Conglomerate diversification
    - 'Creating' new business, 'unrelated' to existing business portfolio; seeking e.g. balance between cyclical vs. non-cyclical business, or high-risk vs. low-risk business; no product-market synergies, but often financial synergies.

- Related diversification
    - New business related to (but not identical with) existing business(es) in terms of e.g. technology, markets and / or products; results in synergies and potentially less risk.

- Vertical integration
    - To give e.g. better control of raw materials (backward integration) or increase demand stability (forward integration).

- Joint ventures
    - Becoming contractual partners with another business to provide a missing capability and / or resource; equity investment by both parties; enables e.g. fast entry to a new (potentially 'restricted') market.

- Innovation
    - Innovations as a 'grand strategy'; underlying rationale of continuously creating new product life-cycle(s) and thereby making similar existing products obsolete; "highest degree of unpredictability" of these listed strategic 'means' (ibid., p. 128).

- Horizontal (acquisition / integration)
    - Growth through (acquiring) business(es) operating at the same stage of production-marketing chain; aims at eliminating competition and increasing market share; offers economies of scale and improved efficiency.

- Strategic alliance
    - Contractual partnership like in Joint Venture but without equity component; often a defined time period with specified resources (cooperative project); learning from one-another; comparable to licensing agreements.

Drawing linkage from the abovementioned, rather unanimous findings (widely supported by other literature as well) to the case example of this study, it could be argued that a large declining firm (S-Group) in a defensive industry without drastic external decline-forces and suffering from market-share erosion (implying changed competitive landscape) should involve rather drastic strategic reorientation (or transformation) to its turnaround strategy. And that these strategic actions should be timed into 'right time periods' vis-à-vis to its competitors' actions (or preferably inactivity).

5. CASE DESCRIPTION – S-GROUP POSITION IN FINNISH RETAIL TRADE

5.1. S-Group in brief

S-Group's current business and set-up is described shortly in the following. Even if the group has evolved throughout the years, its current state gives a good overall view of S-Group's core idea throughout its existence. S-Group today is a market leading player in the Finnish consumer goods retailing with around 45% market share and strong financial state (S-Group 2012), so describing its current state gives also perspective against which the decline-turnaround process can be analysed (at least implying that ultimately a very successful turnaround was indeed accomplished). S-Group's evolution through its history is described more in chapter 5.1.1 and also concerning the competitive actions during turnaround years, under chapter **Error! Reference source not found.**.

S-Group is a Finnish network of companies in the retail and service trade with the core of its existence based on cooperative ownership. Throughout the history S-Group has been active in a wide variety of businesses (see chapter 5.1.1), and in 2013 S-Group's business portfolio consist of grocery trade, consumer goods trade, service station stores and fuel trade, travel industry and hospitality business, automotive trade and agriculture trade. (S-Kanava 2013a) For the sake of clarity, in this study I refer to all the above S-Group's businesses, dominated by grocery trade, as 'consumer goods retailing', which is characterising the nature of all S-Group's businesses as well as the industry under analysis in terms of competitive environment. In 2007 S-Group entered also retail banking business (S-Group 2007, p. 2), but this is largely irrelevant in terms of the research focus of this study, as the time scale of S-Group's decline-turnaround spans only until year 2000 (see chapter 5.3).

In 2012 S-Group's retail sales reached EUR 12 billion, with the split by business area presented below in Figure 6. In this split by business area the *Supermarket trade* and *Department stores and specialty stores* include both grocery trade and consumer goods trade, whereas other business areas match the abovementioned split of S-Group's business portfolio. At the end of 2012 S-Group employed in total over 43,000 employees (S-Group 2012, p. 48).

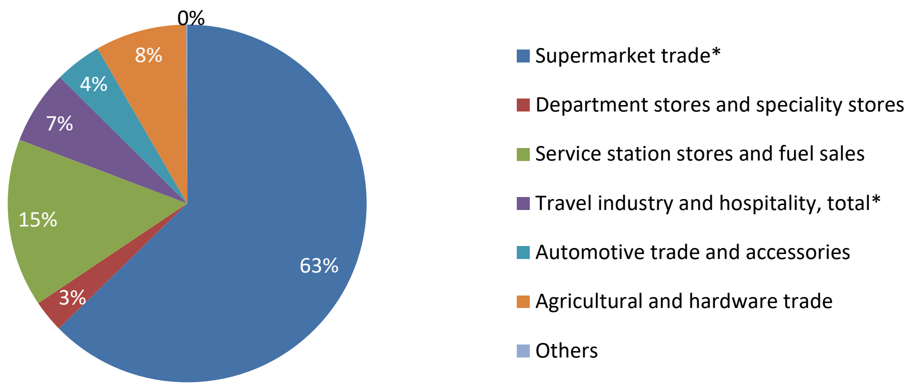

Figure 6: S-Group retail sales by business area in 2012 (S-Group 2012, p. 48). *) Including retail sales in neighboring countries (namely Russia and the Baltic countries)

Due to being based on a cooperative ownership model (see chapter 5.1.2), the structure of S-Group is somewhat differing from a 'common' structure in e.g. large Groups based on limited liability company structure, where normally a parent company is owned by the ultimate shareholders with a potential chain of subsidiaries then owned by the parent company. Figure 7 shows a high-level structure of S-Group, which (in 2013) consists of 20 independent regional cooperatives, 8 local cooperatives and SOK Corporation, a co-operative itself, which is owned by the regional and local cooperatives. The cooperative network covers whole Finland, while the operations have a strong regional emphasis (through regional and local cooperatives). The regional and local cooperatives (which own SOK) are owned by the 'co-op members', i.e. in the spirit of cooperative model, the customers. (S-Kanava 2013a) At the end of 2012 S-Group had 2,055,227 co-op members (S-Group 2012, p. 48), i.e. 38% of the whole population of Finland (Statistics Finland 2013).

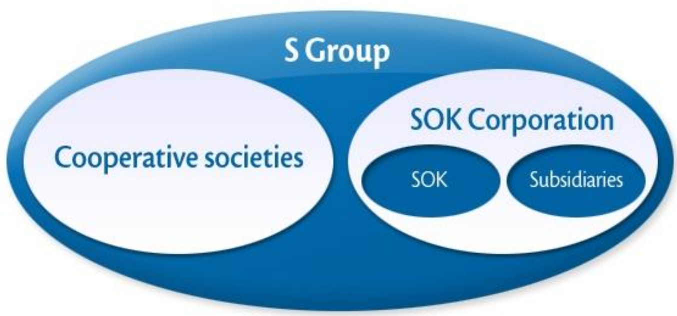

Figure 7: High-level structure of S-Group (S-Kanava 2013a).

Owned by the cooperatives, SOK (Suomen Osuuskauppojen Keskuskunta) operates as the central firm for the (regional and local) cooperatives and produces e.g. procurement, expert and support services for them. SOK is also in charge of S-Group's strategic steering and development. SOK's own business operations supplement S-Group's supply in Finland and the neighboring areas, as SOK owns directly subsidiaries active in e.g. supermarket trade in Russia and the Baltic countries, hotel business in Finland, Russia and the Baltic countries, automotive trade, agricultural trade and procurement and logistics operations. (S-Kanava 2013a, S-Group 2012, p. 78) SOK Corporation's sales was EUR 11.7 billion in 2012, although it is important to understand here that while part of this is included in the abovementioned EUR 12 billion sales of S-Group, the majority (e.g. procurement services provided to regional cooperatives) is eliminated in total S-Group sales, as it is internal invoicing within S-Group. (S-Group 2012, p. 61)

A more detailed organization map, illustrating the 'ownership structure' and differing 'responsibilities' of various entities, is shown below in Figure 8.

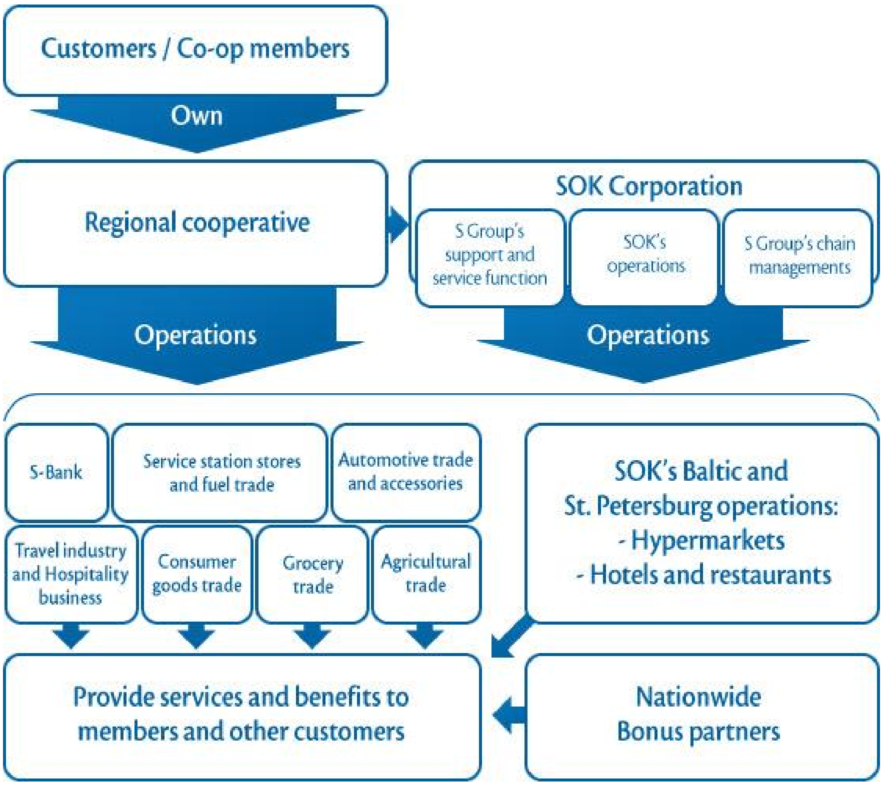

Figure 8: Detailed organization map of S-Group (S-Kanava 2013b).

5.1.1. Short history of S-Group

Roots of the cooperative business model in retailing date back to 1840 in Rochdale, England. In Finland it took a while before urbanisation reached the levels of other Europe, and thus cooperative business model wasn't launched in Finland until late 19th century. The idea spread then quickly in the beginning of 20th century, and for example the first still existing cooperative was established in 1901 in Turku. At the same the time first law concerning cooperative business model was formulated, followed by cooperative businesses rising to almost every community in Finland. This locality / regionality is still a dominating feature in Finnish (including S-Group's) cooperative model. (S-Kanava 2013c)

On 22 March 1904 12 cooperatives signed the establishment document of SOK. At first SOK acted only as an adviser and steering company to cooperatives, but its operations expanded quickly and four years later it was already the largest centralised wholesaler partner in Finnish cooperative environment. (Lahti 2001, p. 8)

In 1920 there were already over 500 cooperatives in Finland, with 1,400 stores and over 170,000 co-op members. By this time SOK had already started industrial production (e.g. knittery, brush factory and spice and tea packing plant), and the cooperative activities were divided into those politically bourgeoisie and those of the working class. (S-Kanava 2013c)

Between 1920 and 1950 S-Group became a central force in the Finnish economy: SOK strengthened its status as the leading wholesale dealer while also expanding its industrial operations to cover e.g. energy production, paper mill and even sweets and margarine factories. During this time S-Group became also an important player in the Finnish society in general, as it pioneered with its customer loyalty concept and supported the Finnish Defense Forces during the Winter War and World War II by e.g. handing over factories for the government. (S-Kanava 2013c)

After the World War II the role of S-Group and other cooperatives became even more important in terms of the reconstruction of post-war Finland. Cooperative shops, cooperative banks and producers' cooperatives were in a central role in revitalizing and resettlement of Finnish countryside. The core ideas of cooperative membership, i.e. locality and responsibility, were strongly emphasized in these difficult times, in a way working against S-Group during the following decades, as will be discussed further in this section. (S-Kanava 2013c)

One of the most significant structural changes in consumer goods retailing dates back to 1950s, when self-service shops were introduced to give more ‘freedom’ for customers to choose their products. This development led slowly but surely towards larger stores and so-called general stores, with smaller, specialized and ‘service-heavy’ boutique-type shops facing pressure. (Lahti 2001, pp. 8-9) S-Group answered this change by introducing its *Sokos* concept (the first Sokos department store was opened on Mannerheimintie in Helsinki in the Olympic year 1952), with name *Sokos* extended to even smaller shops, hotels and units in other business areas, such as machinery and hardware shops. However, at the same time S-Group still focused largely on smaller-scale business in rural areas, with e.g. ‘mobile shops’ being introduced during 1950s. (S-Kanava 2013c)

The abovementioned structural change in consumer goods retailing coincided with the booming urbanization in Finland, which in 1960s was faster than in most other European countries. While in the beginning of 1960s the Finnish population living in rural areas exceeded two million, 15 years later this had dropped to approximately 1.6 million (-

20%). At the same time population living in central urban areas (Helsinki, Tampere, Turku, Oulu, Jyväskylä and Kuopio areas) increased from some 1.2 million to 1.7 million (+40%). (Laakso & Loikkanen 2004, pp. 23-24) This urbanization trend in society also affected S-Group, and made its position more and more difficult since the main focus of its operations was still in the countryside (S-Kanava 2013c). This mismatch in society dynamics and S-Group's focus was probably the main reason behind the decline of S-Group (the turnaround from which being the focus in this study), as briefly mentioned by e.g. latter CEO of S-Group, Jere Lahti (2001, p. 9).

The developments in S-Group and the competitive field from late 1970s all the way to 2000 are discussed much more deeply in the following sections of this study, as the decline and especially turnaround in question took place during these decades. In brief, these decades included e.g. SOK giving up its own industry and the current (in terms of the number of stores, strongly reduced) network of regional cooperatives being established. The development of the current co-op member program (*S-Bonus*) began also at the end of the 1980s. In early 1990s, the procurement and logistics company Inex Partners began operations and took over the procurement, storage and distribution of the groceries of S-Group (and also Tradeka). Further, S-Group's international activities as well as introduction of service station stores and fuel trade (*ABC chain*) marked the development of S-Group in 1990s. (S-Kanava 2013c)

All in all, the last 20 years of the 20th century meant a lot of restructuring in S-Group. Following this successful turnaround, the beginning of the 2000s was a phase of intense growth. For example, in grocery trade, the number of outlets in the *Prisma, S-market, Sale* and *Alepa* chains increased by over three hundred new units between 2000 and 2012, from 556 to 877 outlets (S-Group 2000, p. 54, S-Group 2012, p. 49). Growth has meant also expansion to new areas, as e.g. the *Kodin Terra* chain, focusing on hardware, interior design and gardening sales, was established in 2005. S-Group's annual turnover growth from EUR 6 billion[3] in 2000 (S-Group 2000, p. 54) to over EUR 12 billion in 2013 (S-Group 2012, p. 49) has also been supported by e.g. strong growth of *ABC* chain, expansion of international operations as well as most recently e-commerce operations (S-Kanava 2013c).

5.1.2. Cooperative membership as a core of strategy

As mentioned in the previous chapter, the roots of cooperative based retailing date back to 1840 in England. Britain is also the home of cooperative 'thinking', or cooperative

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[3] S-Group sales of FIM 36.2 billion converted to EUR with a EUR/FIM exchange rate of 5.94573 (Bank of Finland 2013)

movement, in general: The Fenwick Weavers' Society was a professional association created in the village of Fenwick, Scotland. In 1769, the society formed a consumer co-operative for the benefit of members, with the purpose of fostering high standards in the weaving craft. The activities later expanded to include collective purchasing of bulk food items and books. This practice of collective purchasing for the benefit of members has led many to consider Fenwick Weavers' Society the first co-operative, even if cooperative arrangements, such as mutual insurance, and principles of cooperation existed long before. (ICA 2013) The main principle of cooperative movement, i.e. 'customer being in the centre', has survived for 250 years without changing much.

Official and international definition for a cooperative is determined by the International Co-operative Alliance (ICA), and it says: "A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise." (ICA 2013) For S-Group, the cooperative model is not only an ownership structure, but actually core of its strategy: "Co-op membership forms the core of S Group's strategy. The customers of cooperatives are also simultaneously their owners. Therefore, the business idea of a cooperative is to produce services and benefits for its co-op members."

The second sentence of the above S-Group's strategy definition ("the customers of co-operatives are also simultaneously their owners") explains well also the main difference between cooperatives and limited liability companies. In cooperative movement there is no need to prioritise between customers and owners, whereas in limited liability companies the owner comes always first. Even if debatable in real life, this statement is supported by e.g. existing legislation: The Finnish Limited Liability Companies Act states that "the purpose of a company is to generate profits for the shareholders, unless otherwise provided in the Articles of Association" (Ministry of Justice, Finland 2012), whereas the Co-operatives Act determines the purpose of a cooperative being "to promote the economic and business interests of its members by way of the pursuit of economic activity where the members make use of the services provided by the co-operative or services that the co-operative arranges through a subsidiary or otherwise" (Ministry of Justice, Finland 2001).

In a nutshell, limited liability company should prioritise profitability of its operations (maximising profit for owners), while cooperatives have to promote "economic and business interest of its members (i.e. owners)" through members participating in cooperatives' activities. One could argue, that a cooperative has more 'flexibility', as it can / should promote owners' economic interests (either) through desirable services (used by the owner) or (/ and) direct financial benefit, whereas limited liability company is bound to the latter. Or as Lahti (2001, p. 92) puts it, a customer in limited liability company expects to receive goods and / or services as cheap as possible, whereas an investor expects to maximise profits. According to Lahti (2001, p. 93), this kind of paradox does not exist in cooperatives, as "the owner is simultaneously a customer". Counter arguments for this thinking can be based on the fact, that in open cooperatives such as S-Group (i.e. not all customers have to be members) the economic and business interest of members cannot come solely through the use of services, as also non-members can use the same services (Lahti 2001, p. 91). Thus, the operations of an open cooperative have to be financially profitable (ibid.), but still at the same time designed so that they fulfil, in addition to economic, also the "common social and cultural needs and aspirations of its owners / members", as defined by ICA.

In addition to customer-focused operations, another important (financial) aspect in S-Group's cooperative model is that any surplus profits created by operations are returned to owners in relation to the use of cooperative services. This is again a fundamental difference to limited liability companies, where profits are distributed in relation to share of ownership (shares). (Lahti 2001, pp. 92-93)

In order to summarize, even if provocatively, the meaning of a cooperative movement, it can be argued that for a limited liability company it doesn't matter if its customers are satisfied or not[4], as long as operations are profitable. For a cooperative business this would be unacceptable, as unsatisfied customers would equal to (at least partly) unsatisfied owners.

5.2. S-Group and Kesko dominating the Finnish consumer goods retailing

The government has finalized the amendment of the competition law, with the changes aiming at increasing competition in consumer goods retailing. S-Group and Kesko have to adapt to requirements, which concern companies with dominant market position. (Maaseudun Tulevaisuus 20.12.2012)

The new structural policy program of the government aims at increasing competition in retailing. Large supermarkets may be allowed to be built outside urban areas while preserving a compact urban structure. The program thus supports breaking the dominant position of S-Group and Kesko in (city) planning. (Sajari, Helsingin Sanomat 1.9.2013)

These above citations related to recent political amendments show that the dominant position of S-Group and Kesko in the Finnish consumer goods retailing is beginning to somewhat worry at least the politicians. Finland has one of the most centralized markets

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[4] Obviously, customer satisfaction goes often hand-in-hand with demand and thus also profitability (see e.g. Rust & Zahorik 1993)

of consumer goods retailing in whole Europe, with the two leading chains dominating over 80% of the market (TEM 2012, p. 3). However, this has not always been the case, as for example shown in Figure 9.

Even if there have been various competitors (other than Kesko) for S-Group, in this study the competitive dynamics are studied only between this pair. There are obvious research methodological reasons for this (e.g. quality over quantity, see chapter 1.4), but even more one practical reason makes it rather self-evident to limit the research on S-Group and Kesko: the other (significant) market players present during S-Group decline exited the market one way or another until the end of S-Group turnaround scale of this study. Thus, there wouldn't really be any other 'constant' benchmarking target for S-Group in terms of competitive actions than Kesko.

While Kesko was clearly the leading retailer in the beginning of 1980s, there was a third large chain in Finland competing closely with S-Group (Nielsen 2013). This third dominating market player, T-Group, consisted of three 'legs': retail stores (owned by independent retailers), consumer goods wholesalers and the central firm Tuko (Luoma-aho 2000). T-Group and later Tuko Group were named based on the Finnish word 'tukkukauppa' ('wholesale' in English), which largely defined the group's central idea, i.e. wholesaling. Ironically, Lamberg & Tikkanen (2006, p. 835) claim, Tuko's greatest problem was indeed this strong history in wholesaling, which made it virtually impossible for the company to adapt to the changing business environment. Eventually T-Group ended up facing heavy restructuring measures under the creditor banks' control in the early 1990s. This was due to failed ownership restructuring in late 1980s and inefficient but heavy investments made during the same years, which led T-Group becoming overly leveraged and close to bankruptcy. Organizational and business restructuring led to somewhat successful results, and profitable Tuko was acquired by Kesko in 1996. However, European Union competition authorities rejected the merger due to overly dominant market position, which led to Tuko been largely sold in pieces by Kesko to e.g. Wihuri and Spar (largely owned by the Swedish Axfood). (Luoma-aho 2000)

Another potential benchmark target to S-Group in 1980s would have been the so-called E-Group, or later Eka Group. While T-Group / Tuko resembled Kesko in terms of its ownership structure, E-Group was a cooperative like S-Group. E-Group's history goes back to early 20th century, when certain, mainly urban and working-class cooperatives distanced themselves from the more bourgeoisie SOK and established a new central firm, OTK (S-Kanava 2013d). While wholesale focus was claimed to be partly behind T-Group's collapse, Lamberg & Tikkanen (2006, p. 833) argue that E-Group suffered from its often politically active (leftist) members not tolerant toward rationalization attempts by the management of the company. Most of the necessary managerial (restructuring) measures were perceived to be against the socialistic ideas and principles that were the hard-ideological core of OTK / E-Group as an organization (ibid.). In early 1990s Eka Group, active in e.g. construction and insurance business in addition to retailing (by that time called Tradeka), failed to survive the dramatic recession in Finland, resulting in restructuring after which the retailing business was no more operated through a cooperative structure (Kallenautio 2008). After various ownership changes the E-Group / Eka-Group / OTK / Tradeka heritage was until 2016 present in the Finnish consumer goods retailing through Suomen Lähikauppa, a retailing company owned by the Swedish Private Equity company Triton, which then in 2016 was acquired by, not surprisingly, Kesko.

Other companies / groups active in the Finnish consumer goods retailing during the 1980s and 1990s include e.g. Elanto (close link to E-Group in 1980s but nowadays part of S-Group), Wihuri (merged with Tradeka in 2006), Stockmann and Spar (close link with the remaining of Tuko in 1990s) (Juntunen 2007). However, as described here, many of these have had close links to abovementioned four largest players (Kesko, S-Group, T-Group and E-Group) and / or they have been rather local in their operations. Therefore, it can be concluded that S-Group and Kesko were the only nationwide entities operating with more or less same ownership structure in the Finnish consumer goods retailing throughout the period under analysis in this study. Actually, T-Group and E-Group could be largely considered as 'failed' turnaround attempts in the light where S-Group succeeded in turning around its own decline.

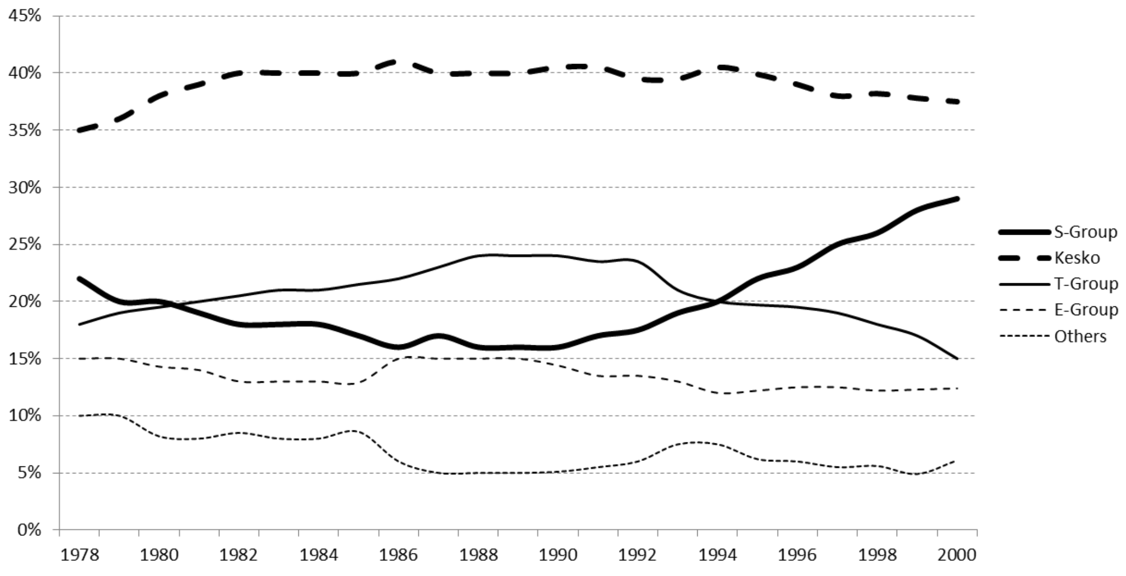

Figure 9: Market shares in the Finnish consumer goods retailing in 1978-2000 (based on Nielsen 2013). *Note: T-Group and E-Group include the chains 'surviving' the restructurings, i.e. for example Spar and Tradeka respectively.*

5.2.1. Kesko as the most stable player in the market

While S-Group suffered from decline in 1980s (discussed more in chapter 5.3), and T-Group and E-Group more or less failed in their turnaround attempts in early 1990s, Kesko has been enjoying from a rather stable and successful history during the last 30 years or so (also evidenced by its market share development in Figure 9).

Kesko is a listed trading sector company. It manages retail store chains and produces services for e.g. retail store chains' purchasing, logistics, network development and data management. Kesko's operations include the food, home and speciality goods, building and home improvement, and car and machinery trades. Its segments' parent companies and chains act in close cooperation with retailer entrepreneurs. Kesko has about 2,000 stores in Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Russia and Belarus. (Kesko 2013)

Kesko as such means basically the centralized group under Kesko Oyj, the publicly listed entity. Therefore, Kesko in broader extent is officially K-Group, which, in addition to the Kesko Group, includes also the K-retailers, i.e. independent entrepreneurs operating the stores. This is broadly comparable to the S-Group structure, where SOK is the central firm and regional and local cooperatives operate most of the retail stores. However, in this study Kesko is used as a common name for all K-Group's activities in consumer goods retailing. (Kesko 2013)

In 2012 K-Group's net sales amounted to EUR 12 billion. Almost half of this was food trade, with home and specialty goods as well as building and home improvement representing together approximately the other half. (Kesko 2012) All in all size-wise Kesko and S-Group are very close to each other nowadays.

Probably the main difference between otherwise largely similar Kesko and S-Group is the organizational and ownership structure. While S-Group is in the end owned by its customers (members), Kesko is owned by the entrepreneur retailers (individual stores) and owners of the publicly listed Kesko shares (over 40,000 shareholders at the end of 2012) (Kesko 2012 p. 77). To explain this concretely, S-Group is owned 'democratically' (one-member-one-vote) by its over 2 million co-op members, whereas in Kesko the larger store the entrepreneur runs or the more shares a shareholder owns the more 'power' he or she has, both in terms of financial benefit (e.g. dividends) and, especially in terms of shareholding, voting power.

Kesko's structure has been mentioned as one of the reasons for its stable success throughout the years. According to Lamberg & Tikkanen (2006, p. 830), Kesko had the most flexible organization structure of the four largest groups in the market in 1980s:

i. First, it was a combination of independent retailers with a light central administrative body.

ii. Second, individual retailers had a strong (and direct) economic incentive to be flexible.

As a result of i. and ii., the company was never organized as a strict bureaucratic model, with rules and procedures leading to ‘rule-following’ behaviour.

iii. Third, owing to the influence of the retailers that owned the company, Kesko never adopted the culture of a traditional wholesale organization (compared to e.g. T-Group). Consequently, it had the best possibility to exploit the market trend that strongly emphasized mass-retailing over wholesaling.

Obviously, as all structures, also Kesko’s model had its negative sides, which are discussed more in the following chapters when benchmarking S-Group against Kesko. However, in big picture, Kesko has managed to overcome the various challenges in the market and competition throughout the years without dramatic declines in its performance. Its market share was rather stable (see Figure 9) while it also remained clearly profitable even during the somewhat challenging years during 1990s (Kesko 1995).

5.3. S-Group decline and turnaround timeline

As previously defined, decline is viewed as *an existence-threatening deterioration in an organisational performance induced by maladaption to changes in environment*, while the turnaround means *ensuring the continuing existence of an organisation through performance improvement and sustainable competitive advantage*.

These qualitative definitions don’t necessarily make it possible to draw concrete ‘lines’ to a specific turnaround case, i.e. when did it start and end. However, neither did the more quantitative definitions as argued in chapter 2.1.1. As performance is nevertheless the main, even if rather abstract, variable when ‘framing’ a certain decline-turnaround process, some (changes in) indicators should be analysed to measure the (changes in) performance throughout such process.

The main concrete performance indicator used in this study is market share, and more precisely how changes in market share can be used as a proxy for S-Group’s decline and turnaround. The use of market share instead of more tangible financial metrics is justified e.g. by the structure of S-Group. The cooperative set-up as such means that basic financial metrics such as sales and / or profitability don’t necessarily measure how well S-Group has performed considering its strategy and mission (“*…the business idea of a cooperative is to produce services and benefits for its co-op members.*”). Or as Lahti (2001, p. 90) mentions, cooperative’s profit can even be viewed as a ‘pricing error’. Further, as S-Group’s operations are largely run by the several regional / local cooperatives, it might be misleading to analyse only the financials of SOK. And as there are very limited financial metrics available that would take into account the group as a whole, it is justified to leave these individual financials to a lesser focus.

Another feature of this study supporting the use of market share as a performance indicator is the focus on competitive dynamics and rivalry between S-Group and Kesko. As thoroughly discussed in chapter 3.4, I consider the competitive market as a field where it is decided if a company is performing well or not. This is well in line with the decision of employing (changes in) market share as the main indicator of (changing) performance. To justify this by some more theoretical background, according to Porter (1980) the whole idea of strategy is to defend and improve competitive position, and thus market share, especially when compared to one's closest rival(s), should qualify as a decent measure for the success of this strategy. Or more concretely, as my definition of competitive action states, *a specific and detectable competitive move initiated by a firm in order to acquire its rivals' market shares [...].*

Thirdly, market share has been used rather widely also in other literature focusing on decline and turnaround. Mellahi et al. (2002, p. 16) define crisis-failure as an event or condition (or a series of events or conditions) that could lead to severe market share erosion. In one of the earlier studies in the field, Hofer (1980, p. 21) mentions declining market share also having 'some importance' as an indicator of (weakened) performance. Ferrier et al. (1999) ground their whole research on market share erosion, and how changes in market share can be used as a dependent variable when benchmarking competitive actions.

In addition to market share also more qualitative features are discussed in the following in order to define a timeline for S-Group turnaround. I.e. how the company itself has expressed its performance and state, or how more retrospective studies / history writings have interpreted various stages in S-Group's history.

5.3.1. S-Group's decline and ultimate crisis in early 1980s

S-Group's decline in 1970s and early 1980s is largely explained by the mismatch between S-Group's focus on small stores in more rural areas and the urbanization trend in Finland (see e.g. chapter 5.1.1 and Lamberg et al. 2009). The market share data (not available in detail prior to 1978, but rather stable for S-Group in 1970s as shown in e.g. Lamberg et al. 2009, p. 54) in Figure 10 shows that S-Group's market share dropped from clearly above 20% to close to 15% during the period from 1978 to 1986, before stabilising for the next 5 years or so. Thus, solely in the light of market share development, S-Group's decline could be argued to have taken place during 1978-1986.

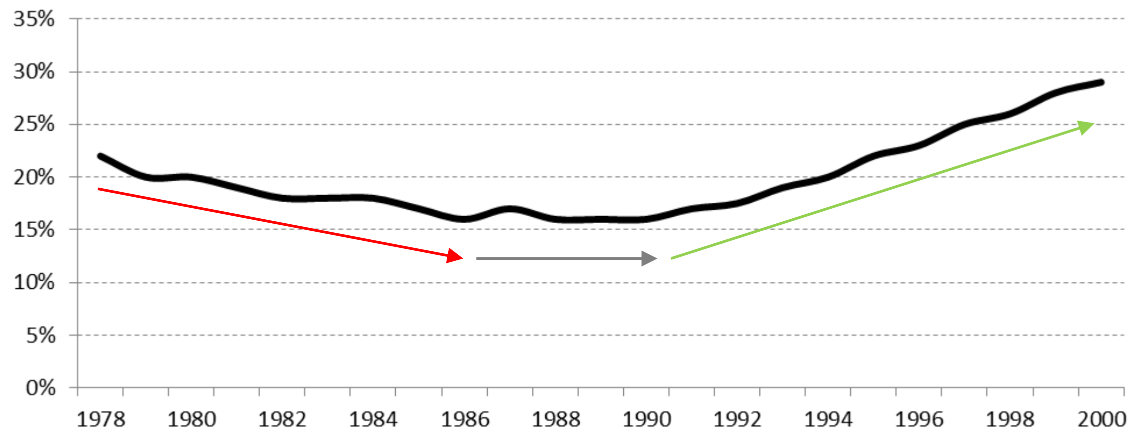

Figure 10: S-Group market share in the Finnish consumer goods retailing in 1978-2000 (based on Nielsen 2013).

As a more qualitative 'flavour' and in order to stress that S-Group truly was facing an *existence-threatening deterioration*, a quote from S-Group's history writing (S-Kanava 2013c) demonstrates the critical state of the group's situation in early 1980s: *At the turn of the 1980s, the situation had proceeded far enough to put all cooperatives in a financially difficult position which they were only to survive by resorting to savings funds and by liquidating property.*

In terms of the decline process and its stages, the early 1980s in S-Group were somewhat a combination of the *blinded*, *inaction* and *faulty action* stages as described in chapter 2.2.1 and Figure 11. As Heino (2007, p. 42) describes, the top management of SOK was indeed aware of the critical situation, but the local cooperatives were not ready to acknowledge the looming crisis. Here the decision-making structure of S-Group has been said to work against it, as the collective, overly democratic governance of S-Group made it impossible to make fast, centralized decisions on e.g. closing down poor performing local cooperative stores (ibid., p. 41). In 1981 the inactivity was over to some extent, as SOK launched a restructuring program aiming at profitability in all units of the group. However, despite an encouraging start, a year later it was evident that much more concrete actions were required in order to tackle the decline. In 1982, S-Group had been loss-making for 15 years in a row, its debt load was over FIM 3.1 billion and increasing by FIM 400 million annually, it was unable to even cover its interest costs with operative cash flow, and most severely, it had lost the confidence of its members, resulting in increasingly declining market share. (Kangas 2004, pp. 103-106)

5.3.2. Stabilisation and turnaround steps from S-83 to recovery in 1990s

Probably the most concrete individual event in between S-Group's decline and turnaround (i.e. a 'manifestation' of the *triggers for change* phase as described in Figure 11) was the appointment of Juhani Pesonen as the SOK (basically S-Group) CEO in 1982

(Pesonen started officially as the CEO in July 1983). Pesonen was already known as a turnaround specialist from his previous post at Wihuri, and after 6 months' evaluation period Pesonen launched the S-83 restructuring program, which was communicated throughout the organization as a series of radical must-do changes in order to avoid a 'heroic suicide' of S-Group. With these structural changes, including e.g. lay-offs of more than 5,000 employees, S-Group was meant to be completely reorganized by the end of 1986. (Kangas 2004, pp. 103-106)

Competitive actions included in the S-83 program and further recovery are described more in chapter **Error! Reference source not found.**, but probably the main stabilisation / retrenchment areas after 1983 were focusing on core businesses and reorganising the structure of local cooperatives. This meant closing down and / or divesting e.g. industrial activities and merging local cooperatives into fewer regional units while centralising certain operations as well as decision making into SOK. These measures were obviously successful when looking at retrospectively, but they were in no way providing any 'quick fix' into S-Group's problems. Market share continued its decline until 1990 (even if largely stabilising during the latter years of 1980s) while S-Group's financial state didn't improve much either. (Heino 2007, pp. 48-51)

Process wise this period from 1983 to 1990 in S-Group is therefore rather well in line with the background discussed in chapter 2.2, where it was noted that "once the future competitive areas and main focus have been defined, it is time to stop the declining performance […]. These actions often involve retrenchment and downsizing, but quick fix results i.e. performance improvement doesn't usually follow immediately." S-83 did address the future competitive areas (focusing on core business), it led to retrenchment and downsizing (divestments and merging local cooperatives), while the performance improvement wasn't evident either in financials or market share in whole 1980s. All in all, the period from the launch of S-83 until 1990 can be described as a combination of *transition* and *stabilisation* phases in S-Group's decline-turnaround process.

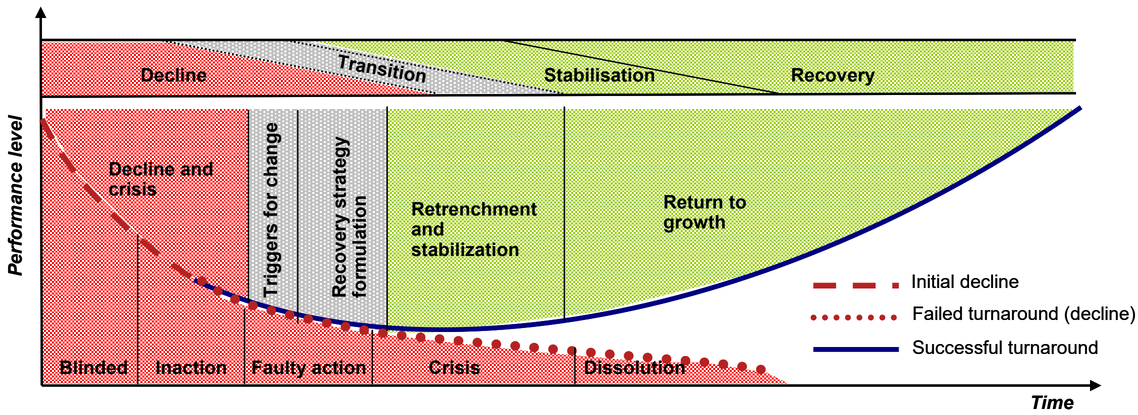

Figure 11: Main stages in decline and turnaround process (mainly based on Weitzel & Jonsson 1989, Balgobin & Pandit 2001, Pearce & Robbins 1992). Initially presented in chapter 2.2.4.

As mentioned earlier, it is quite impossible to determine when recovery phase and thus the whole turnaround ends, as companies have to continuously think their strategic decisions in order to succeed – also during the so-called good times. In any case return to growth must be considered as long-term engagement. As Chowdyry (2002, p. 256) points out, "performance improvement should stretch over a long period of time to allow for recovery, lest firms be prematurely considered successful or unsuccessful".

S-Group's market share started to climb in 1991 from the level of 16% reaching almost 30% at the turn of the millennium. Calling early 1990s to be an end to S-Group's turnaround feels premature, as for example the economy of Finland was going through a strong recession, which also affected S-Group's financial performance negatively despite market share improvement (S-Group 1994). One 'milestone' in S-Group's turnaround was in 1995 when it achieved the market share of 22%, i.e. the level from where the declining trend started 17 years earlier. As such this milestone alone doesn't define any specific point in S-Group's turnaround, but at least it means that S-Group turnaround met the criteria used by Pearce & Robbins (1992, pp. 295-296), i.e. performance (indicator) overtaking the pre-downturn level (of corresponding figure).

During the latter half of 1990s Finnish economy boomed, Finland had joined the European Union and S-Group was undoubtedly the second largest player in the Finnish consumer goods retailing. Stabilised external environment and successful market share development ensured also S-Group's decent financial performance. It is impossible to draw a concrete line when the turnaround ended successfully, i.e. when S-Group had *ensured its continuing existence*, but it should be safe to conclude that in 2000 this was the case (most likely some years earlier). In 2000 S-Group achieved its all-time high sales, profit as well as bonus payments to its members. All of its regional and local cooperatives were profitable. The ABC chain of service station stores and fuel trade, launched in 1998 and nowadays representing 15% of S-Group sales, had also by 2000 reached a level where it represented a meaningful competitive advantage in the field. (S-Group 2000) These achievements as well as more modest market share growth and limited number of new strategic initiatives in early 2000s make is justified to limit the turnaround scope of this study to end to year 2000.

In a nutshell, I consider S-Group turnaround to span from 1980 to 2000. The first couple of years of this period still represented the pinnacle of the decline but at the same time looming *transition* towards a turnaround. These *triggers for change* were highlighted in the appointment of Juhani Pesonen as the CEO as well as his S-83 restructuring program. *Stabilisation* period then spanned a few years forward from 1983, with the eventual *recovery* taking place in 1990s.

6. COMPETITIVE DYNAMICS BEHIND S-GROUP TURNAROUND

As the turnaround timeline of S-Group has now been defined to span from 1980 to 2000, the following step according to the research problem is to analyze the competitive dynamics between S-Group and Kesko during this period. As competitive dynamics basically means "how competitors actually interact in the marketplace via the on-going exchange of competitive moves" (Chen et al. 1992, pp. 439-440), the first step is to collect the relevant competitive actions from case companies from the period under analysis. This has been done by going through the annual reports of both companies and from these selecting such moves and actions that qualify, according to the criteria presented in chapter 3.2.3 and summarised below in Table 5, as *specific, detectable and externally directed competitive moves initiated by a firm in order to defend or improve its competitive position*.

Table 5: Modified list of (categories of) competitive actions (initially presented in chapter 3.2.3).

1	New product	10	Product / market exit
2	Mergers and acquisitions	11	Product differentations
3	Price changes	12	Quality improvement (externally detectable)
4	Promotional actions (incl. product announcement)	13	Legal actions (aimed at competition / competitor)
5	Joint venture (effort)	14	New distribution channel
6	Service-based actions	15	Technology / internet-based action (externally detectable)
7	Market expansion (also geographic)	16	Retail outlet range / format
8	Investment in major resource (externally detectable	17	Vertical integration
9	Major resource divestiture (externally detectable)		

Lists of S-Group's and Kesko's competitive actions during 1980-2000 are presented in Appendices 1 and 2 respectively. In addition to a short description of each competitive action and its year, a category number related to the above list of competitive action categories (see Table 5) is given to each action. This categorization is used to analyze the *diversity* of competitive actions performed. Further, a case specific classification is given to each action in order to analyze both the *action-response dynamics* between S-Group and Kesko and the *consistency* of each company in their competitive behavior. The use of these categories and classifications are further described in the following sub-chapters focusing on the specific 'metrics' of competitive dynamics.

Analyzing the listed competitive actions and dynamics between them is based on the characteristics of competitive behavior behind turnaround discussed in chapter 3.3. As mentioned there, based on the existing literature, in a nut shell, inactivity, sluggishness, lack of diversity or consistency and failure in positioning competitive actions vis-à-vis to competitors can lead to performance deterioration. Other way round, actively performing competitive actions with certain aggressiveness while making sure that the actions are consistent with the strategy and diverse in nature, can lead to good (i.e. in turn-around case, improving) performance. In order to make these 'metrics' more tangible, the following features of competitive dynamics are analysed:

1. *Activity*, i.e. number of competitive actions performed;

2. *Aggressiveness* in competitive behavior, consisting of:
    a. *Order of entry*, i.e. which company executes the so-called initiative action; and
    b. *Response lag*, i.e. how long it takes for the follower to respond to the initiator;

3. *Diversity*, i.e. the breadth of a firm's repertoire of competitive actions; and

4. *Consistency*, i.e. how well a firm's actions conjoin with the firm's own history of competitive actions (and thus strategy).

6.1. Activity in performing competitive actions

As discussed earlier, inactivity in terms of competitive actions and accepting the status quo can be a major reason for declining performance, while also actively pursuing new competitive actions, even if not every time successful, teaches the organization on how to 'play' in the market.

Based on the data regarding competitive actions of S-Group and Kesko (as presented in Appendices 1 and 2), below are figures illustrating the competitive activity of the two companies during the determined turnaround period of S-Group.

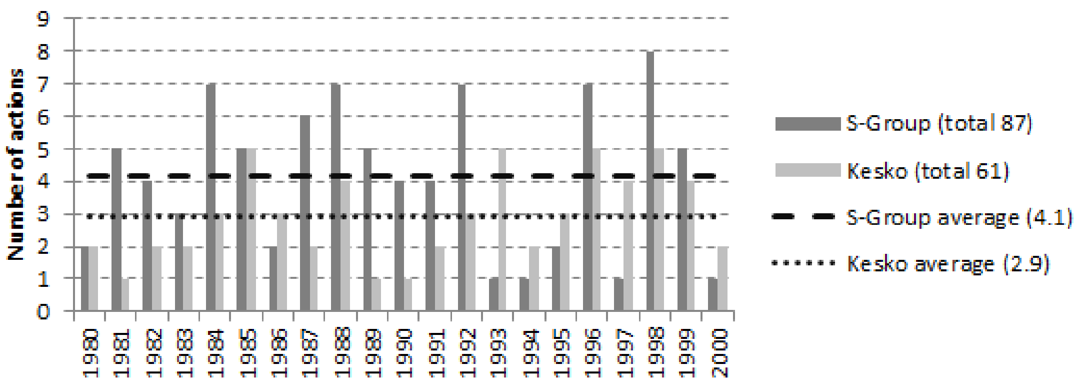

Figure 12: Number of competitive actions performed by year during 1980-2000.

As presented in Figure 12, S-Group performed rather consistently more competitive actions than Kesko especially in the beginning of the turnaround period, with annual average of 4.1 actions for S-Group versus Kesko's 2.9 annual actions on average in 1980-2000. During 1980s, Kesko performed more actions than S-Group only in 1986. Then again in 1990s, i.e. during S-Group's recovery period, Kesko outperformed S-Group 5 times (1993-1995, 1997 and 2000).

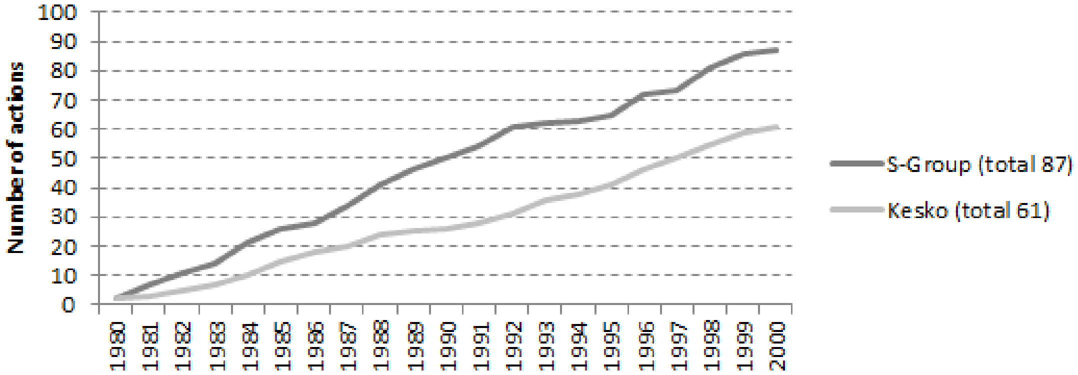

Figure 13: Development of the cumulative number of competitive actions performed during 1980-2000.

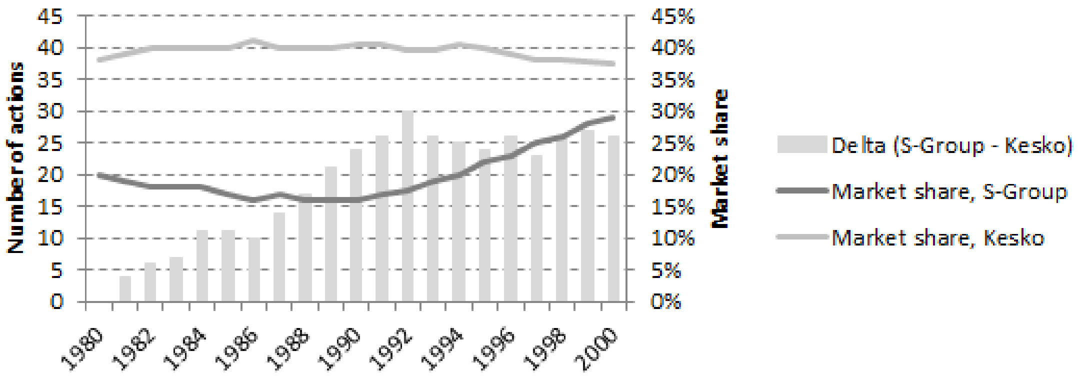

Figure 14: Difference in cumulative number of competitive actions performed and market share development during 1980-2000.

While S-Group performed in total 26 more competitive actions than Kesko during the turnaround period, the difference in the cumulative number of performed actions actually peaked already in 1992 (see

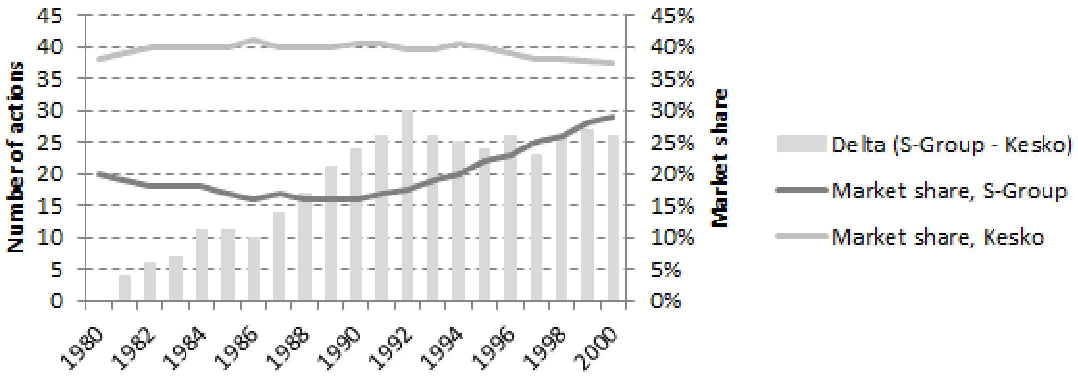

Figure 14). So, S-Group was very active in comparison to Kesko especially in the stabi-

lisation phase, while in the recovery phase there was no meaningful gap in number of performed actions (albeit specific individual years).

The peak in the delta of the cumulative number of performed actions (1992) coincides quite nicely with the actual turnaround in S-Group's market share (which bottomed in 1990). This would support the view, that the actions rarely have an immediate impact on performance (indicators), but rather take time to become evident in external metrics. Or as mentioned earlier, the forces of decline continue to hinder turnaround attempt even when the stabilisation is on its way.

6.2. Aggressiveness in competitive behavior

In order to analyze the aggressiveness in performing competitive actions, i.e. the combination of order of entry and response lag (*action-response dynamics*), all competitive actions are mapped against the following case specific classification:

Classification item	S-Group	Kesko
Expansion of non-core business	9	16
Divestiture in non-core business	27	14
Expansion of core business	8	8
Divestiture in core business	1	0
New core business	2	0
Chain development	20	7
Non-chain thinking	0	2
Internationalisation	7	8
Efficiency improvement	6	4
Cooperative actions	6	1

From these, *Internationalisation* is somewhat out of the scope of this study, as it does not directly impact consumer goods retailing and market shares in Finland. Actions classified as *Efficiency improvement* (e.g. outsourcing of IT services) are then again more internal measures to improve efficiency of operations and profitability without necessarily affecting competition as such. From other classification items, *Divestiture in core business*, *New core business*, *Non-chain thinking* and *Cooperative actions* have only limited number of actions for S-Group and / or Kesko. Therefore, the following comparison of aggressiveness is focusing on *action-response dynamics* under classification items *Expansion of non-core business*, *Divestiture in non-core business*, *Expansion of core business* and *Chain development*.

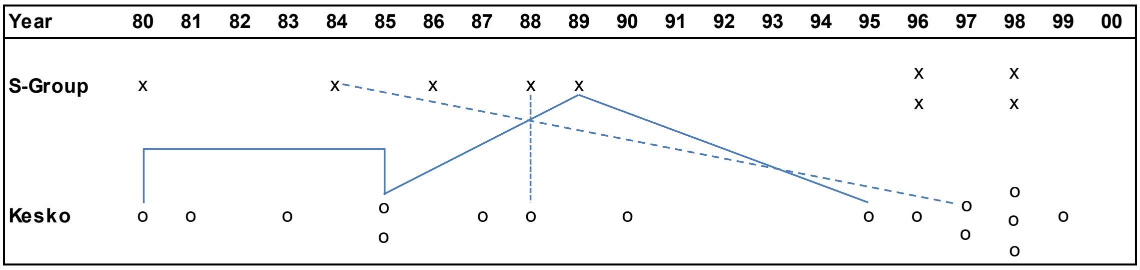

Figure 15: *Expansion of non-core business* type of competitive actions and selected action-response chains.

Within the classification item *Expansion of non-core business*, Kesko was more active than S-Group throughout the period, but in terms of *action-response dynamics* there aren't any clear chains in order to determine aggressiveness as such. The solid line in Figure 15 shows actions related to expansion in clothing and fashion retailing, where Kesko expanded its operations quite remarkably during the period. S-Group responded in 1989 with some acquisitions in the clothing sector, but this hardly represents any fierce exchange of actions in order to gain relative competitive advantage. The dotted lines in Figure 15 refer to both companies investing in properties in 1988 and expansion of electronic & IT retailing (S-Group in 1984 and Kesko in 1997). Rest of the actions under this classification item represent even less any kind of *action-response dynamics*, which, however, is quite understandable as *Expansion of non-core business* is not really the item where one would expect most fierce exchange of competitive actions or competition in general.

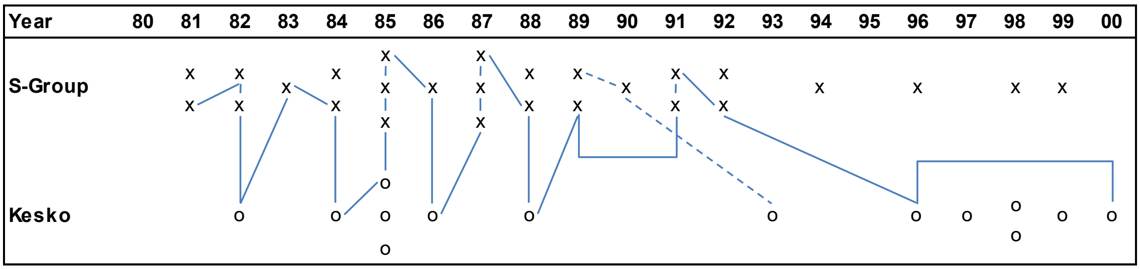

Figure 16: *Divestiture in non-core business* type of competitive actions and selected action-response chains.

From all case specific classification items, S-Group performed most actions in *Divestiture in non-core business*. These actions were largely performed during the first 10 years of the turnaround period, which is nicely in line with the common view in literature that key part of stabilisation – or almost a synonym for that – is retrenchment, i.e. restructuring, downsizing and downscoping. And as quoted earlier in 4.2.2, "reducing assets or costs in an absolute sense does not always mean that efficiencies are gained or that a stabilised core of operations is achieved" (Barker & Mone 1994. p. 397), which makes it quite natural that S-Group focused its retrenchment on non-core businesses.

In terms of action-response chains, clear patterns don’t exist under this classification item either. The solid line in Figure 16 shows actions related to divestitures in industrial and business-to-business operations. Within these businesses S-Group could be seen as the more aggressive party to divest non-core operations, although it must be said that e.g. S-Group’s divestiture of chipboard and rye bread production in 1982 is not fully comparable to Kesko’s reindeer meat production divestment in the same year. Then again there are some clear comparable action-pairs as well, e.g. liquidation of egg packaging by S-Group in 1985, a year before Kesko performed the exact same action. Or divestment of car retailing, where S-Group made actions in 1989-1990 and Kesko followed in 1993 (the dotted line in Figure 16).

All in all, under *Divestiture in non-core business*, S-Group performed 2/3 of its 27 actions in 1980s, whereas almost half of Kesko’s 14 actions were performed in 1996-2000, so it is at least somewhat fair to conclude that S-Group was more aggressive of the two under this classification item.

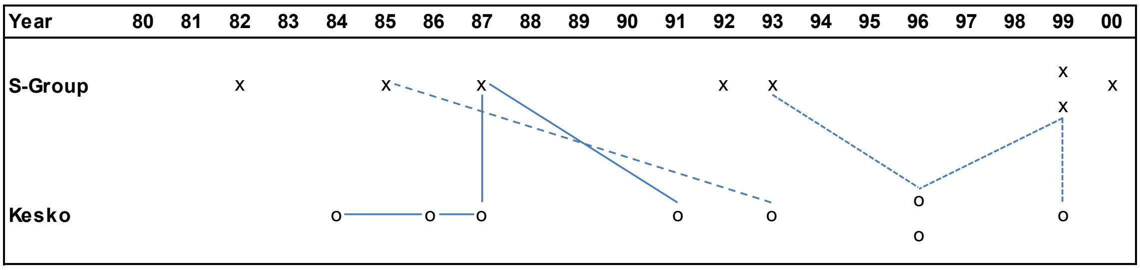

Figure 17: *Expansion in core business* type of competitive actions and selected action-response chains.

In *Expansion of core business* S-Group and Kesko both performed 8 actions during the analyzed period. Only three of these actions were performed in 1980s, i.e. the stabilisation period of S-Group. This is not surprising as stemming decline with retrenchment activities (especially divestitures of non-core business) was the most important focus area for S-Group during the decade. Actually, in 1985 S-Group closed down 500 stores (under *Efficiency improvement*) so expansion of network meaningfully at the same time would not have been very consistent. Kesko, on the other hand, did invest in its retail network through renewal of stores and establishment of corner stores (1984), continuing the expansion in 1986 and focusing investments from wholesale to retail in 1987. S-Group’s only response was the acquisition of Alepa chain in 1987. This exchange of actions in retail network development, where Kesko was the more aggressive player, is illustrated by the solid line in Figure 17.

The first dotted line in Figure 17 is related to business expansion in perishables trade to institutional and B2B clients. S-Group established a service to institutional clients in 1985 with Kesko responding in 1993 by taking the responsibility of centralized supplier of perishables to Stockmann.

The second dotted line illustrates actions related to establishment and expansion of internet / mail-order businesses. S-Group established its mail-order business in 1993, Kesko responded by starting internet sales of consumer electronics in 1996 and both companies continued the expansion in 1999, with S-Group establishing S-Kanava web-sales channel and Kesko opening its corresponding Netanttila web-store. In these two action-response chains S-Group was slightly more aggressive player.

One more interesting action-pair under this classification item is S-Group's development of its 1998 launched (under *New core business*) ABC chain, i.e. service station stores and fuel trade. In 1999 and 2000 S-Group expanded ABC chain in several regional cooperatives. For these, there is no action-response chain illustrated in Figure 17 as Kesko did not respond until 2003 (i.e. outside the scope of this study) when it launched a cooperation with Neste Oil to compete with market leader ABC chain, which had already grown to 38 store wide chain (Taloussanomat 2003).

Overall, under *Expansion of core business*, Kesko was the more aggressive player in expansion of the retail chain in 1980s, but then again S-Group performed initiative actions in few other areas, which were or became core businesses for both companies. So, one could conclude that Kesko was more aggressive during S-Group's stabilisation phase whereas S-Group led the line during its recovery.

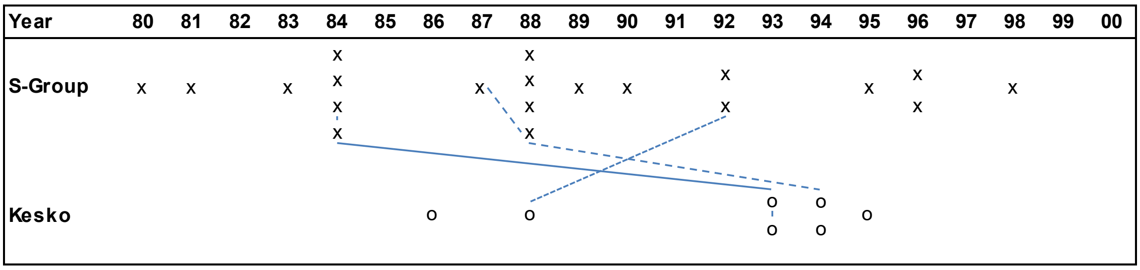

Figure 18: *Chain development* type of competitive actions and selected action-response chains.

In *Chain development* S-Group was clearly more aggressive than Kesko in terms of performing initiative actions. Kesko's response lag was also rather long and the actual number of responding actions performed was low. Although Figure 18 shows only three specific action-response chains, all the 'x's and 'o's are more or less comparable actions as they were related to more organized as well as centrally managed and marketed businesses and / or business segments. Thus, it is clear from the Figure 18 as such, without even comparing specific actions and responses, that S-Group was more aggressive here.

The solid line in Figure 18 illustrates more or less the true initiation of chain thinking in both parties' history. In 1984, S-Group renovated its retail stores into 6 different segments including harmonizing of the strategies of these chains. In the same year, whole S-Group marketing was focused on creating new common image. Kesko didn't respond until 1993, when it tightened its chain thinking, closed down small corner shop outlets and established new retail outlet segmentation. Similarly, S-Group was years ahead of

Kesko in terms of the development of its large supermarket chain Prisma, compared to Kesko's Citymarket concept (illustrated by the first dotted line).

The only, rather insignificant area, where Kesko was ahead of S-Group in *Chain development*, was the combination of agricultural trade into chain in 1988 (illustrated by the second dotted line in Figure 18).

In addition to these four case specific classification items analyzed more thoroughly, in *Cooperative actions* there is one, very important, action-response example which allows for direct comparability and thus assessment of aggressiveness. S-Group established its bonus scheme to co-op members in 1989 and this scheme was introduced to involve also external partners in 1997. Kesko responded through introduction of its Plussa customer loyalty scheme in 1997, i.e. 8 years after S-Group and at the same time when S-Group expanded its scheme to external partners.

All in all, S-Group can be said to have been more aggressive in its competitive actions than Kesko. Kesko was more aggressive in expanding its core business during S-Group stabilisation in 1980s, but in other areas and also in core business expansion during recovery S-Group was largely the initiating party.

6.3. Diversity of competitive actions

As discussed in chapter 3.3, diversity of performed actions is seen to affect firm performance. Firms that carry out a broad set of action types can be seen as more capable and also as less predictable, while on the other hand, successful past can be a burden as success may cause strategic simplicity, i.e. relying only on a narrow range of actions, and therefore result in organizational decline.

In terms of analysing diversity of competitive actions performed by S-Group and Kesko, all performed actions during 1980-2000 were categorized according to 17 categories presented in Table 5 on page 67. This categorization differs from the case specific classification and gives better picture of action diversity as it implies more *how* something is done whereas the classification states more of *what* is tried to achieve. For example, S-Group performed actions targeting *Chain development* (i.e. *what*) both through promotional actions (e.g. establishment of common S-Group brand) and through product differentiations (e.g. chain-based assortments defined in perishables trade).

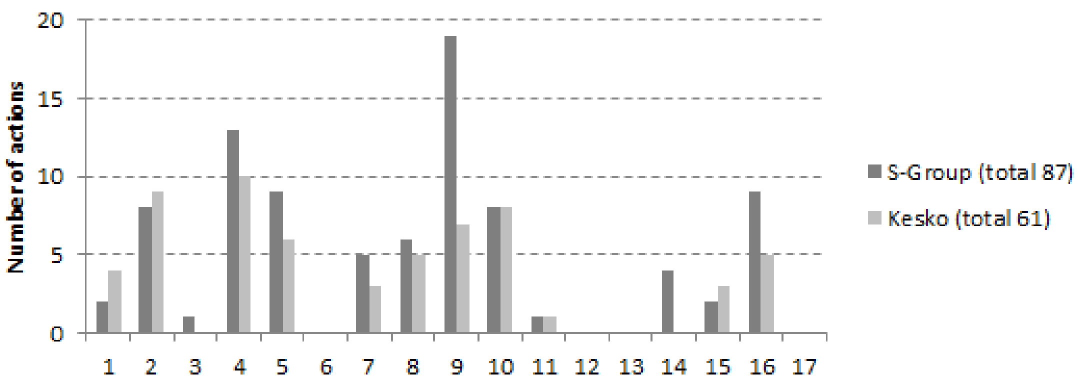

Figure 19: Number of competitive actions performed by category (see categories in Table 5).

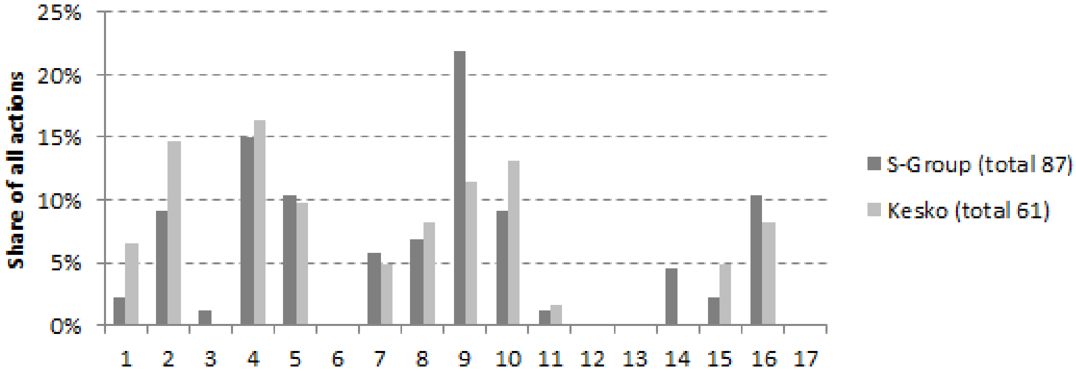

Figure 20: Relative share of competitive actions performed by category (see categories in Table 5).

As illustrated in Figure 19 and Figure 20, S-Group performed most actions in categories 9 (major resource divestiture) and 4 (promotional actions). Kesko was most active in categories 4 (promotional actions) and 2 (mergers and acquisitions). Both companies have also ‘empty’ categories, e.g. 13 (legal actions) and 17 (vertical integration).

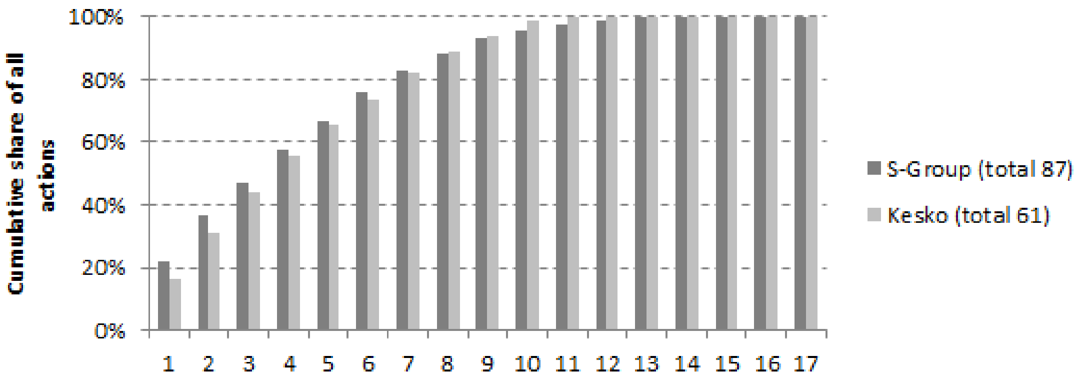

Figure 21: Cumulative share of actions by category with categories (x-axis) in decreasing order in terms of number of performed actions.

Based on above and as clearly illustrated in Figure 21, there is no clear difference between S-Group and Kesko when it comes to distribution of competitive actions between categories as such. Both have approximately half of actions performed through 4 different ways (as the categories tell *how* certain actions are performed), while after 10 different ways there are only individual examples if any. One could argue that, as Kesko has 6 empty categories versus S-Group’s 4 empty ones, S-Group was more diverse in that sense, but considering S-Group’s higher total amount of actions and above more or less equal cumulative distribution between categories, no significant value should be given to this data point.

Theoretical background for diversity of competitive actions says that performing actions (even if aiming at more or less same goal) in a different way from time to time makes them e.g. more difficult to predict and / or imitate. Thus, one additional way to analyze the diversity is to look at the distribution between categories (i.e. *how*) separately for each type of competitive action (i.e. *what*).

For this we take the same list of classification as in 6.2 and from there items *Expansion of non-core business*, *Divestiture in non-core business*, *Expansion of core business* and *Chain development*, with the reasoning for choosing these items (and thus excluding other items) explained above in 6.2.

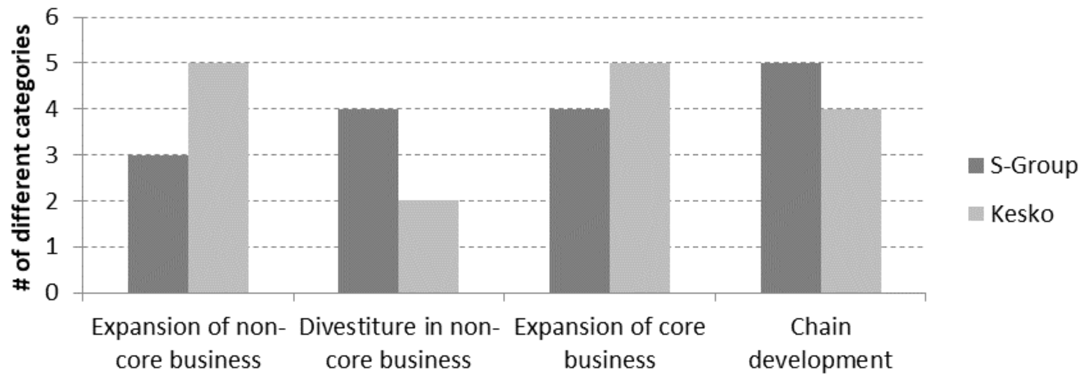

Figure 22: Number of separate categories under selected classification items of competitive actions, i.e. number of different ways (*how*) of performing actions aiming at same type of goal (*what*).

As Figure 22 shows, this additional way of analyzing diversity of actions does not bring much new to the table. S-Group had more diversity of actions when performing *Divestiture in non-core business* and *Chain development*, but then again Kesko had more ways in targeting *Expansion of non-core business* and *Expansion of core business*.

All in all, there seems to be no clear distinction between S-Group and Kesko in the diversity of competitive actions. Both relied on a rather limited amount of action types (in terms of *how*), as only 4 types accounted for more than half of all actions and then again approximately half of all potential action types (9 out of 17) accounted for almost 95%.

6.4. Consistency of competitive actions

Consistency of competitive actions refers to how well a firm's actions conjoin with the firm's own history of competitive actions (and thus strategy). As previously said, diversity in competitive behaviour should not lead to gyrating but finding various and changing ways of executing continuous and consistent strategy – in other words, aiming at the same goal but with different kinds of shots. Consistency is here the same goal.

Analyzing strategic consistency is very case specific, i.e. it is difficult if not impossible to determine if a certain action is consistent with history based just on categories or classifications. For example, a divestiture in core business might well seem like inconsistent with in a simultaneous or closely timed investment in corresponding business. However, this might actually well be rather consistent if the divestiture and investment happen on different geographical regions, and thus meaning that a firm is just focusing its efforts on a specific area.

Therefore, the analysis of consistency is done via going through the competitive actions of S-Group and Kesko under selected classification items and viewing if they indicate inconsistent behavior, or alternatively show patterns of consistency. The selected items are the same as in 6.2 and 6.3, i.e. *Expansion of non-core business*, *Divestiture in non-core business*, *Expansion of core business* and *Chain development.* In addition, the 'opposites' of the latter two, i.e. *Divestiture in core business* and *Non-chain thinking* are also included to spot potential inconsistencies in those items.

In N*on-core business* related items, expansion and divestiture, S-Group decided on significant expansion of bakery operations in 1980 while divesting rye-bread production in 1982. However, this does not as such imply inconsistency, as a retailer may well cut-down on own-production while still increasing efforts in the business. Same goes for the liquidation of dressmaker's factories in 1983 and acquisition of clothing retailing in 1989. So actually, both of these rather indicate consistency and focus on the retailing side instead of covering the whole supply chain starting from production. This same consistent behavior can be seen throughout the 1980s, as S-Group exited also e.g. industrial production, meat production, egg packaging, plastic factory, chocolate factory and furniture production.

There are, however, also some slightly inconsistent actions under S-Group's non-core business related items. It divested 80% of its agriculture trade in 1984 only to establish a joint venture in that business in 1988 before acquiring T-Group's agriculture trade in 1992. Also, S-Group sold car trade and import businesses in 1989-1990 but bought similar type of business in 1996. The important feature in both these is that S-Group divested businesses during its stabilisation phase in 1980s while (re-)investing into those during the years of recovery, i.e. 1990s.

Kesko also sold its clothing production in 1984 while it invested remarkably to clothing trade in 1980. However, there is a clear inconsistency later in 1990s, when Kesko first acquired a fashion chain Aleksi13 in 1995 only to sell it four years later in 1999.

Another slightly inconsistent move was to sell Kesko's share in Kesoil, fuel trade business, in 1985 as later in 2003 (although out of the scope of this study) Kesko finally answered to S-Group's successful ABC chain by creating a partnership with Neste Oil. Similarly, inconsistent move with a long time span in between, was the focus on property investment business in late 1980s while ten years later Kesko sold properties worth of 1 billion FIM.

All in all, there is some inconsistency visible in Kesko's actions under *Non-core business* related items while S-Group's actions were very consistent during its stabilisation in 1980s before re-investing in couple of the exited businesses later in its recovery.

In *Core business* related items S-Group focuses mainly on mail / web order business expansion (2 actions) and the establishment of service station chain ABC (2 actions). There was also the important milestone when acquiring the Alepa chain in food retail in 1987. No inconsistent moves for these took place during the period of 1980-2000. In the limited amount of core business related actions, there is one inconsistent pair of entering the hardware store business in 1982 and then divesting the business in 1987.

Kesko's expansion in core business during the period was focusing on increasing the amount of retail outlets (4 actions) as well as establishment of web-sales (2 actions). There were no actions related to divestments in core business, so no noticeable inconsistent behavior either.

Chain development was S-Group's second most active area with 20 actions in total, with no actions under N*on-chain thinking*. More or less all of the 20 actions are related to more coordinated, nationwide chain-focus instead of fragmented and independent local operations. Examples such as new shared image in (nationwide TV) marketing, introduction of chain-based assortments, decreasing the number of brands (e.g. Sokos markets turned into Prismas) and focusing the presence of brands (e.g. Alepa focusing into Southern Finland) all indicate more coordinated and harmonized approach. In other words, one could argue that S-Group's goal in *Chain development* was towards fewer, larger and more coherent brands, with limited room for localized niche kind of thinking. With no actions that would be even somewhat inconsistent with this behavior, S-Group seemed to be very consistent in its *Chain development*.

Kesko's 7 actions in *Chain development* were also all aiming at more harmonized and coordinated brands and segments. Two actions were focusing on harmonizing product offering (establishment of so-called private label brands of Pirkka and Euroshopper), while 4 actions targeted more controlled chain thinking in general (e.g. 1993 action of '*Chain thinking increases and corner stores are shut down*'). As mentioned in chapter 6.2, Kesko was years behind S-Group in this chain thinking. In terms of inconsistency, and contrary to S-Group, Kesko focused its marketing actions to store specific promotions in 1994, while in early 1980s it had even more diversely promoted store and area specific marketing. Despite this slight mismatch, Kesko can also be concluded to have been decently consistent in its *Chain development*, while been much slower and less aggressive than S-Group.

7. CONCLUSIONS

The last chapter, conclusions, concludes the S-Group's path from recovery to turnaround through its competitive behaviour and the competitive dynamics vis-à-vis Kesko, and thus answers the research problem. I also discuss the above path in relation to existing literature and how S-Group's turnaround is (or is not) following the theories presented in previous research. Finally, this last chapter includes research evaluation mainly in terms of limitations, reliability and validity, as well as concludes my thinking on relevant future research topics in the subject area.

7.1. Discussion

The research problem / question of this study is: *Can the reasons for stopping the declining performance and returning to (more) successful track be derived from the competitive actions a company performs vis-à-vis its competitor(s)? If such observation is valid, what things in competitive behaviour vis-à-vis the competitor(s), i.e. competitive dynamics, support transition from decline to turnaround?*

As discussed in chapter 6, S-Group was clearly more active than Kesko in performing competitive actions, especially during the stabilisation years of 1980-1992. S-Group was in big picture also more aggressive than Kesko, i.e. making more of the initiating actions and / or answering to the competitor's move(s) more rapidly. In terms of diversity and consistency of competitive behaviour, there were rather minor distinctions between S-Group and Kesko. Both companies actually relied on rather limited amount of action types in terms of diversity, and then again both were rather if not very consistent in their actions during the 20-year period. In summary, and especially from S-Group's perspective (i.e. the one performing a turnaround), it can be concluded that:

> *S-Group was the more active and aggressive party especially during the stabilisation years of its decline-turnaround process, apart from the area of Expansion of (existing) core business, where Kesko was leading the line. Neither company was particularly diverse in terms of action types, but then again (or probably consequently) both were consistent in terms of targeted outcome, with S-Group especially showing very harmonious track throughout its 20-year turnaround path.*

Therefore, in the light of this study and context of S-Group vs. Kesko, it can be argued that being (more) active and aggressive in performing competitive actions towards consistent goals enable successful turnaround, while the diversity of action types, i.e. *how*, is not crucial for such improved performance.

These findings are rather in line with existing literature as widely analysed and referred to in earlier parts of this study. For example, it is widely claimed that turnaround efforts almost always entail cutback, downsizing and cost reduction and thus term retrenchment would be an appropriate description for the stabilisation phase. Further, existing studies largely agree that inactivity is one of the main reasons for decline and that activity then again both increases the chances of succeeding and even if not, the firm creates internal organizational assets in the form of action repertoires, routines, and knowledge about how to carry out actions. Thus, S-Groups activity, aggressiveness and focus especially on *Divestiture in non-core business* (i.e. retrenchment) in the 1980s seems lot like an 'academic text-book example put into real life' in terms of competitive behaviour in the stabilisation phase of a successful turnaround.

Existing literature suggested, as discussed in chapter 4, that decline forces and causes imply certain guidelines for turnaround process. For example, as in the case of S-Group, internal issues as main cause of decline, lost stakeholder support (see chapter 5.3.1) and high decline severity together suggest i) major retrenchment, ii) under new management and, iii) aiming to strategic transformation.

S-Group can be said to have gone through a major retrenchment in the 1980s. As a proof of this, almost one-third of its all competitive actions during 1980-2000 and as much as 40% of actions in the 1980s were under *Divestiture in non-core business*. Further, 5 actions under *Efficiency improvement* during the stabilisation phase are also related to retrenchment type of behaviour.

S-Group also checks the box of changed management. First, in 1983, Juhani Pesonen took over as the CEO with a strong mandate to 'stop the bleeding', realised in his S-83 restructuring program. Then, in 1988, Jere Lahti was appointed to lead the recovery of S-Group after the heavy restructuring under Pesonen.

However, the third 'guideline', i.e. strategic transformation as the long-term cure did not materialize at least in a drastic way in S-Group. As discussed in chapter 4.3.1, there are basically three paths for sustainable recovery from a severe decline: *rebuild the company on its prior strategic footprint*; *accept its new reduced form*; and, *strategic transformation.* The first one is comparable to the concept of operative turnaround. As "operative responses seldom cure strategic problems", neither was that the case in S-Group's turnaround. Thus, S-Group's story is likely best fitted somewhere in between the *new reduced form* and *strategic transformation*.

Speaking on behalf of the *new reduced form*, or niche hunting as used is some literature, is the feature of S-Group becoming much more focused when coming out of the 1980s and through the recovery. Divestitures in non-core business and focus on more streamlined retail operations resemble "*longer-term strategy [...] more focused, 'leaner and meaner', player in selected segments*", as said in 4.3.1. Also, there aren't evident *strategic transformation* features in the S-Group behaviour during its turnaround period. As described on pages 50-51, those could be new (main) business(es) through diversification of the offering (did not happen), significant innovation (did not happen) or new (main) market(s) through Joint Venture, strategic alliance or vertical integration (did not happen).

However, claiming S-Group turnaround did not include radical / transitional moves and was just down to becoming more focused feels incomplete. And actually, there is one element under *strategic transformation* types which in a way largely took place in S-Group: *Horizontal (acquisition / integration), i.e. growth through (acquiring) business(es) operating at the same stage of production-marketing chain; aims at eliminating competition and increasing market share; offers economies of scale and improved efficiency.*

S-Group did not make transformational acquisitions or anything, but it did very much harmonise the composition of its structure among independent local cooperatives and centrally governed decision-making. Reorganising the structure of local cooperatives, i.e. merging local cooperatives into fewer regional units while centralising certain operations as well as decision making into SOK, can be viewed as internal horizontal integration aiming at economies of scale, improved efficiency and even eliminating (internal) competition. Same goes with brand strategy of S-Group's retailing, i.e. focusing on selected nationwide chains such as Prisma and S-Market (and later ABC chain, which in a way was also *related diversification*).

7.2. Evaluation of research

> *In qualitative research the researcher has a lot of freedom of interpretation, which then again requires certain 'imagination' (Eskola & Suoranta 1998, p. 20). While solid theoretical background may increase the objectivity of a study, the researcher can never fully ignore his / her own values. Therefore, qualitative research cannot reach full objectivity – the researcher and action(s) / phenomenon under research are always tied into each other. In other words, qualitative methodology recognizes that the subjectivity of the researcher is intimately involved in scientific research. Further, the results of qualitative research are conditional, i.e. arguments are 'restricted' by certain time and place. (Hirsjärvi et al. 2000, p. 152) Thus, should this study be performed after some years, the results / conclusions might be different.*

Against the above background, at least the 'restriction' by time should be less of a concern in the quality of this study, as the empirical case focuses on historical events years back and even more years in terms of the length of the studied period. Similarly, the existing literature on this field and extensively analysed as part of the study is, in my opinion, equally up-to-date no matter if it was Weitzel & Jonsson 1989 or Smith & Graves 2005. However, this is not to say the objectivity of the study should be taken as granted. While I feel the theoretical background is both extensive and solid, the subjectivity of the researcher plays an unavoidable role in e.g. classifying and analysing the competitive actions. Here, then again, the support and input from the quality interviewees limits at least to some extent the impact of subjectivity of solely the researcher.

As introduced in chapter 1.4.3, and contrary to use of validity and reliability as such, I ended up using the criteria presented by Stenius et al. (2008) to evaluate the overall quality of this study:

1. Significance of the data set and its social or cultural place

2. Sufficiency of the data, and coverage of the analysis

3. Transparency and repeatability of the analysis.

The competitive dynamics behind S-Group turnaround is derived from the competitive actions collected from S-Group's and Kesko's Annual Reports, so the social and cultural state of the data should be rather constant over time thanks to common regulation. Similarly, those externally observable actions are the only ones publicly available (and thus repeatable for another researcher) from the period under review, so the sufficiency of the data is basically limited and given – be it enough or not for a quality research work.

Probably the main concern regarding the quality of this research is related to transparency of analysis. As the study combines somewhat complex concepts of decline-turnaround and competitive dynamics, and puts those two together while adding rather long empirical case period spiced up with some factors from firm's 'internal layer' (see Figure 4), the concoction starts to be quite multifaceted. Therefore, the repeatability of the analysis with same conclusions, despite the coherent data-set, might be somewhat problematic, as there are so many corners where to turn along the way. As the researcher, I can only hope that the chain of reasoning behind reported results is clear enough.

7.3. Future research topics

As discussed earlier, decline-turnaround phenomenon and competitive dynamics are both common and well-researched, as well as largely 'timeless' topics. However, as evident in the theory-building of this study and based on existing literature, there isn't at least an overflow of these two concepts being put together. Thus, I see clear place for more studies combining decline-turnaround (or maybe some part of this continuum) with angles from competitive dynamics to create improved understanding on these phenomena.

While digging into the decline-turnaround process of S-Group, I could not hide the feeling how interesting it would be to study more the decision-making behind externally observed competitive actions. While the interviews with two former S-Group CEOs were utilised to gain their input on e.g. classification of actions and validation of the decline-turnaround 'storyline', there would be a great setting now afterwards to discuss again and ask for reasoning to the observed behaviour. How much of the observed was strategically planned? How well ahead? How much concretely thought 'against' the competition (Kesko especially)? These are all questions that pop-in mind and would nicely turn into a study with more organisational decision-making angle than pure competitive dynamics.

Then again, from the actual competitive dynamics angle, it would be very intriguing to dig deeper into more detailed analysis of certain action-response-chains. How did a firm react to competitor's certain move? How was the response made? If not made, why? How many steps ahead were pre-thought? This kind of study would improve the understanding of pure competitive dynamics and its role in turnaround. To be realistic, though, one would have to limit the analysis to much more recent event and shorter time-period in order to analyse all the nuances, details, people and their memories etc. required for understanding a specific action-response chain for example. Sole listings from annual reports would not be enough for this.

Finally, from more behavioural science point-of-view, it would be interesting to learn how people and different stakeholders feel about going through a turnaround process. How long does the 'stamp' of failure stay in the minds of e.g. employees and customers? How does it affect their behaviour, if at all? How about employer image? Declining companies would need the best people to turn things around, but it's at least rather easy to make a hypothesis that best people are not probably that enthusiastic on joining / staying in such environment.

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Table 6: S-Group competitive actions 1980-2000 (based on S-Group Annual Reports)

#	Year	Competitive Action	Category	Case-specific classification
1	1980	Significant expansion of bakery operations	8	Expansion of non-core business
2	1980	Chain development: Rautasokos and Konesokos chains established	4	Chain development
3	1981	Properties sold	9	Divestiture in non-core business
4	1981	Export increased by 50%	7	Internationalisation
5	1981	Television as a main channel in nationw ide marketing; new spapers in local marketing	4	Chain development
6	1981	Chipboard factory liquadated	10	Divestiture in non-core business
7	1981	Significant co-op member acquisition campaigns	4	Cooperative actions
8	1982	Major restructuring in slected large local cooperatives	9	Efficiency improvement
9	1982	Hard rye bread production liquadated	10	Divestiture in non-core business
10	1982	Helsinki dressmaker's factory liquadated	9	Divestiture in non-core business
11	1982	SOK enters hardw are store business	16	Expansion of core business
12	1983	Large department stores, hotels, hardw are stores and machinery trade to be combined into nationw ide chains	16	Chain development
13	1983	Pori grain factory liquadated in order to increase the utilisation rate in other factories	9	Efficiency improvement
14	1983	Dressmaker's factories liquadated	9	Divestiture in non-core business
15	1984	S-Group brand established	4	Chain development
16	1984	Selected industrial production units sold	9	Divestiture in non-core business
17	1984	80% of SMK (agriculture trade) sold	9	Divestiture in non-core business
18	1984	SOK and local cooperatives establish low -cost stores	16	Chain development
19	1984	Retail store chains renovated	8	Chain development
20	1984	New shared image as a focus in marketing	4	Chain development
21	1984	LaserCenter electronic store established	1	Expansion of non-core business
22	1985	Ow nership in OK-Liha (meat production) sold	9	Divestiture in non-core business
23	1985	Ow n egg packaging liqudated	10	Divestiture in non-core business
24	1985	Institutional catering service established delivering perishables to institutional clients	14	Expansion of core business
25	1985	New restructuring program S-90 planned: including e.g. focusing industrial production to only selected items	10	Divestiture in non-core business
26	1985	Closing dow n of 500 stores	9	Efficiency improvement
27	1986	Acquisition of a w hite goods chain	2	Expansion of non-core business
28	1986	Sale of printing house	10	Divestiture in non-core business
29	1987	Prisma stores included in the "list" of strategic chains: low er margins defined as a competitive advantage for Prismas	4	Chain development
30	1987	Acquisition of Alepa chain	2	Expansion of core business
31	1987	Foodstfuff industry and textile fabrication of SOK and E-Group combined into Meira Oy	5	Divestiture in non-core business
32	1987	Rautaässä stores (hardw are stores) divested	9	Divestiture in core business
33	1987	Sock factory sold	9	Divestiture in non-core business
34	1987	Plastic factory sold	9	Divestiture in non-core business
35	1988	Joint venture Hankkija-Maatalous established in agriculture trade	5	Divestiture in non-core business
36	1988	Sale of chocolate factory and furniture production	10	Divestiture in non-core business
37	1988	Marketing focus on nationw ide chain based leaflets	4	Chain development
38	1988	Chain based assortments defined in perishables trade	11	Chain development
39	1988	Chain based thinking brought into restaurant business	4	Chain development
40	1988	SOK involved as a developer in retail properties including S-Group's stores	8	Expansion of non-core business
41	1988	Almost all Sokos markets turned into Prisma markets	16	Chain development
42	1989	Acuisitions in clothing retailing	2	Expansion of non-core business
43	1989	Lapin Auto Oy (car trade) sold	2	Divestiture in non-core business
44	1989	Co-op member bonus scheme established	4	Cooperative actions
45	1989	Sale chain established from smaller S-Markets and larger corner strores	16	Chain development
46	1989	Marketing of IT services to external clients ended	10	Divestiture in non-core business
47	1990	Procurement and delivery (i.e. w holesale) of perishables transferred into Inex Partners Oy, a joint venture w ith E-Group	5	Efficiency improvement
48	1990	Development of international procurement	5	Internationalisation
49	1990	Maanteho Oy (car importer) sold partly	9	Divestiture in non-core business
50	1990	Alepa chain focused on Southern Finland	16	Chain development
51	1991	Metal and garage product trade sold	9	Divestiture in non-core business
52	1991	IT services outsourced	9	Efficiency improvement
53	1991	Suomen Kuluttajaosuustoiminnan Liitto ry established w ith E-Group	5	Cooperative actions
54	1991	Meira liquadates domestic primary industry production and clothing facrication	10	Divestiture in non-core business
55	1992	Home electronics trade sold to a joint venture together w ith T-Group and E-Grop	5	Divestiture in non-core business
56	1992	Hardw are and garden trade procurement and institutional sales sold to a joint venture w ith E-Group	5	Divestiture in non-core business
57	1992	SOK acquires the w hole Hankkija-Maatalous (agricultural trade) to itself	2	New core business
58	1992	Bonus scheme developed extensively w ithin SOK and regional / local cooperatives	4	Cooperative actions
59	1992	CitySokos perishables departments turned into S-Markets	16	Chain development
60	1992	Hankkija–Maatalous acquires Tuko–maatalous Oy (T-Group's agriculture trade)	2	Expansion of core business
61	1992	Agri-Market chain established in agriculture trade	4	Chain development
62	1993	Mailorder sales established	14	Expansion of core business
63	1994	Property investment company sold to Varma	9	Divestiture in non-core business
64	1995	Price decreases due to EU membership carried out faster and larger than competitors	3	Chain development
65	1995	CitySokos opened in Tallinn	7	Internationalisation
66	1996	Major investments in department store business especially in Prismas	16	Chain development
67	1996	SOK sells properties	9	Divestiture in non-core business
68	1996	Investments in hotel business	8	Expansion of non-core business
69	1996	Valioasut turned into Sokos–fashion in order to fit the overall chain image	4	Chain development
70	1996	Car sales established in Estonia	7	Internationalisation

#	Year	Competitive Action	Category	Case-specific classification
71	1996	SOK acquires car dealership	2	Expansion of non-core business
72	1996	First S-Group web-pages opened	15	
73	1997	S-Group bonus scheme introduced to involve external partners	4	Cooperative actions
74	1998	Large markets under heavy investments	16	Chain development
75	1998	SOK acquires Rainex	2	Expansion of non-core business
76	1998	Pilot ABC station (service station store and fuel trade) established	14	New core business
77	1998	Sale and lease-back of several important properties	9	Divestiture in non-core business
78	1998	Hankkija–Maatalous expansion to Estonia	7	Internationalisation
79	1998	Sale of hotel Hesperia to Radisson SAS and a cooperation agreement between SOK and Radisson SAS	5	Internationalisation
80	1998	Pilot in connecting co-op members into S-Group information network	15	Cooperative actions
81	1998	Electricity trade in cooperation with Vattenfall initiated	1	Expansion of non-core business
82	1999	SOK sells Radiolinja shares	9	Divestiture in non-core business
83	1999	S-Kanava active in web-sales established	14	Expansion of core business
84	1999	Prisma chain established in Estonia	7	Internationalisation
85	1999	ABC chain expansion in several regional cooperatives	8	Expansion of core business
86	1999	Cooperation with German Ernst Brinkmann KG in home electornics retailing in Finland	5	Efficiency improvement
87	2000	ABC chain expansion in several regional cooperatives	8	Expansion of core business

Table 7: Kesko competitive actions 1980-2000 (based on Kesko Annual Reports)

#	Year	Competitive Action	Category	Case-specific classification
1	1980	Assortment of perishables decreased	11	Efficiency improvement
2	1980	Clothing trade developed remarkably and K–Vaatehuone concept established	4	Expansion of non-core business
3	1981	First K–Kotikeskus (interior and leisure trade) opened	1	Expansion of non-core business
4	1982	Reindeer meat procurement and cutting divested	9	Divestiture in non-core business
5	1982	Electronic code reader point-of-sales equipment launched in K stores	15	Efficiency improvement
6	1983	Individual, store specific marketing increased	4	Non-chain thinking
7	1983	Oy Suomen Väri – Finska Färg Ab (interior goods trade and installation) acquired	2	Expansion of non-core business
8	1984	Renew al of stores and establishment of corner stores as focus areas in perishables trade	16	Expansion of core business
9	1984	Even more strong focus on area and store specific marketing	4	Non-chain thinking
10	1984	Divestment of clothing industry	10	Divestiture in non-core business
11	1985	Kesmotors chain established in small machinery trade	4	Expansion of non-core business
12	1985	Bicycle assembly business divested	10	Divestiture in non-core business
13	1985	Acquisition of clothing retailers	2	Expansion of non-core business
14	1985	Divestment of Finnkesko AB (sales company in Sw eden)	10	Divestiture in non-core business
15	1985	Sale of Kesoil (fuel trade) shares	9	Divestiture in non-core business
16	1986	Launch of Pirkka product family	4	Chain development
17	1986	Egg packaging business divested	10	Divestiture in non-core business
18	1986	K-store netw ork expanded significantly through new store establishments as w ell as renovations	16	Expansion of core business
19	1987	Focus of investments from w holesale to retail netw ork development	8	Expansion of core business
20	1987	Credit card company K-luotto established together w ith Kesoil	5	Expansion of non-core business
21	1988	Development of property investment business through share ow nership in Osakaskiinteistöt Oy	2	Expansion of non-core business
22	1988	Pan-Nordic fruit and vegetable procurement company established	5	Internationalisation
23	1988	Local agriculture trade centers combined into a chain	4	Chain development
24	1988	Forestry products divested	10	Divestiture in non-core business
25	1989	Marketing cooperation agreement w ith the Finnish Olympic Committee	4	
26	1990	Material and logistics services sales to industrial companies initiated	1	Expansion of non-core business
27	1991	Viking Coffee Oy (roaster) established together w ith the Sw edish ICA	5	Internationalisation
28	1991	Several Citymarket stores established	16	Expansion of core business
29	1992	Non-profitable K-store units closed dow n	9	Efficiency improvement
30	1992	Kesko enters Intersport chain to develop its internaitonal cooperation	5	Internationalisation
31	1992	International cooperation in fresh products increases - Kesko enters pan-Nordic fruit brand Rico	5	Internationalisation
32	1993	Chain thinking increases and corner stores are shut dow n	16	Chain development
33	1993	Stockmann agrees to centralize its perishables procurement to Kesko	5	Expansion of core business
34	1993	Kesko sells VV–auton car retailing and focuses only on import	10	Divestiture in non-core business
35	1993	Entry to Baltic markets	7	Internationalisation
36	1993	Major investments in K-store chain development and segmentation (corner stores, markets ,supermarkets, citymarkets)	16	Chain development
37	1994	Marketing focused on store type specific promotion	4	Chain development
38	1994	New establishments in Citymarket chain and K–rauta hardw are stores	8	Chain development
39	1995	Expansion to Russia and Sw eden	7	Internationalisation
40	1995	Kesko acquires Aleksi 13 chain to expand into fashion trade	2	Expansion of non-core business
41	1995	First Europshopper products launched	4	Chain development
42	1996	Kesko acquires T-Group (Tuko), but majoity of it divested later due to EU merger control interference	2	Expansion of core business
43	1996	Keskometal sold to Rautaruukki	10	Divestiture in non-core business
44	1996	Kaukomarkkinat group acquired in order to improve import	2	Efficiency improvement
45	1996	Internet sales started in consumer electronics business	15	Expansion of core business
46	1996	Acquisition of rest of the Viking Coffee shares	2	Expansion of non-core business
47	1997	Plussa loyal customer scheme initiated	4	Cooperative actions
48	1997	Acquisition on the field of computer and ICT retailing	2	Expansion of non-core business
49	1997	Toy retailing liquadated	10	Divestiture in non-core business
50	1997	Ow n securities investment company established	1	Expansion of non-core business
51	1998	Properties sold w ith approx. EUR 1 billion	9	Divestiture in non-core business
52	1998	Tähti–optikko (optician) chain established	1	Expansion of non-core business
53	1998	Carrols chain expanded to a nationw ide fast food practice	8	Expansion of non-core business
54	1998	New Anttila Kodin Ykköset (interior goods) stores (12) established	8	Expansion of non-core business
55	1998	Rautia stores sold to independent retailers	9	Divestiture in non-core business
56	1999	Netanttila w eb-store opened	15	Expansion of core business
57	1999	Carrols chain expanded further	8	Expansion of non-core business
58	1999	Clothing chains (e.g. Aleksi 13) sold	9	Divestiture in non-core business
59	1999	Agriculture trade established in Latvia	7	Internationalisation
60	2000	Outsourcing of e.g. property maintenance and ad agency	9	Divestiture in non-core business
61	2000	Acquisitoin of Telko Oy	2	Internationalisation